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CURRENT CONDITIONS IN THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

OCTOBER 5, 1988

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CURRENT CONDITIONS IN THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

WEDNESDAY, OCTOBER 5, 1988

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:15 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Lawton Chiles, (chairman of the committee) presiding.

Present: Senators Chiles, Sasser, Riegle, Exon, Wirth, Conrad, Domenici, Kassebaum, Symms, Grassley, Kasten, Danforth, and Nickles.

Staff present: Richard N. Brandon, staff director; and Jim Carr, assistant director for tax policy and credit.

For the minority: G. William Hoagland, staff director; and Carol Hartwell, senior analyst for housing and credit.

OPENING STATEMENT OF CHAIRMAN CHILES

Chairman CHILES. Today, the Budget Committee will examine the financial solvency of the savings and loan industry generally, and particularly the financial health of the Federal Savings and Loan Insurance Corporation.

We are pleased to welcome Mr. Danny Wall, the chairman of the Federal Home Loan Bank Board; Frederick Wolf, director of the Accounting and Financial Management Division of the General Accounting Office; Bert Ely, President of Ely & Company; and we also have with us this morning Mr. George Barclay, President and principal supervisory agent of the Federal Home Loan Bank of Dallas.

At the close of 1986, the GAO estimated that the Federal Savings and Loan Insurance Corporation was bankrupt, with a negative net worth of roughly $6 billion. Although it was clear for some time that the savings and loan industry had been experiencing a substantial amount of financial stress, I think it is safe to say that many Members of Congress were not aware that the problem was so massive. Unfortunately, today's situation makes the 1986 condition seem pretty mild.

In an effort to bail out the Federal Savings and Loan Insurance Fund, Congress enacted a bail-out package last year. Needless to say, it was not enough. Since the enactment of the FSLIC recapitalization plan, the negative net worth of FSLIC has more than doubled. According to GAO, it now stands at just under $14 billion. Many estimates suggest that the savings and loan industry itself is sinking further into debt at a rate of roughly $1 billion a month.

Most alarming, however, are estimates of what it will take to resolve the current thrift crisis. This year we have heard estimates ranging from $30 billion to more than $70 billion. Even if we pick the mid-point and say $50 billion, we have got a big financial headache. I am hopeful Mr. Wall will help us better understand the actual size of the S&L crisis.

We are not breaking new ground here by saying the recap plan has not done the job. According to most experts I have spoken with, FSLIC needs a lot more assistance to deal with its massive problem. It is not totally clear to me how the problem has continued to grow so rapidly after enactment of the recap plan, but I think it is safe to say that the plan was too little, too late. Certainly, there is enough blame to go around concerning the recap plan's inadequacies. Treasury has sent to Congress a recapitalization proposal that created an Off-Budget Rescue Corporation to funnel $15 billion to FSLIC, and the tone was set for avoiding both the true magnitude of the savings and loan crisis as well as the true budget implications of the crisis.

Congress accepted the off-budget fiction and then whittled down Treasury's limited rescue plan, thereby sealing the fate of a successful recapitalization effort. At this time, I do not think it is useful to debate who was more at fault in last year's failure to adequately address FSLIC's financial trouble. As I have stated, both the administration and Congress played a role, and I certainly do not think it is particularly useful to beat up on Mr. Wall. I would not want his job. He has an immense task ahead of him, and from what I know about his actions to resolve the current crisis, he has made the best of a bad situation. And I commend him for sticking with the job.

We do have some questions, however, for Mr. Wall. For example, since early spring, the Federal Home Loan Bank Board has repeatedly stated that the Bank Board has adequate resources to manage the thrift crisis. In fact, it was not until July that the chairman hinted that taxpayer assistance might be necessary. Through July, the Bank Board had estimated the bail-out to be roughly $22 billion. It was not until that time that Mr. Wall raised his estimate to $30 billion. Today, I understand that project is about $50 billion, and that is a heck of a lot of growth in 1 year.

I find it difficult to believe that the crisis is growing that fast. So I am left to believe that the estimates are the ones that are growing.

I think basically what we need to try to find out is truly how much exposure are we looking at, what are the ways that, as taxpayers, we are going to try to deal with that exposure, and what should the American public understand and know are the hard answers that are going to have to be done in order to manage this. Congress has to know that; the American people have to know that; and I hope we will get some kind of understandings on that today.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Mr. Chairman, we meet this morning, to discuss the financial condition of the Federal Savings and Loan Insurance Corporation and the possible effects on the budget. I want to welcome the witnesses and express our appreciation for their contributions today. I would, in particular, like to thank George Barclay, President of Dallas Federal Home Loan Bank, for making arrangements to be here on very short notice.

If it is any consolation to you, Mr. Barclay, at least in the waning moments of this Congress, short notice is a problem that many of us have, not only you. But we are having it around here frequently.

I also want to express my appreciation to the chairman of the Federal Home Loan Bank Board, not only for joining us today, but for his work in restoring the health of the savings and loan industry. His job is thankless, made all the more difficult by the complications that have just been expressed by the chairman.

For several months now, the savings and loan industry and the Congress and the press, and perhaps some people in the Executive Branch, have all been engaged in sort of a guessing game—"pin the number on the savings and loan crisis." All attention seems to be focused on one question: How big is the problem? Get that number as high as we can, even though we are not yet certain as to how we are going to solve it.

I do not question the severity of the problem. I am here to find out more about it. Estimates of that ultimate cost, as I have heard them, range anywhere from $30 billion to $70 billion. But it is not clear to me that FSLIC will not have the resources needed to do the job, nor is it clear to me that they will not. For some people, it is a very short jump from this point to a conclusion that the taxpayers will have to make up some significant shortfall.

Well, I have not arrived at that conclusion yet, and I believe before we start talking about a taxpayer bail-out, we need a lot more information. That information is being developed. The Executive Branch has a group. We in this body have passed a bill that sets in motion a commission to look at it. The House has one as well. They have not reached accord, but I have no doubt that before we leave, we will set in place a group to take a look and assess this problem and report back.

Before we start talking about a taxpayer bail-out, we need better information about the cost of resolving the problems of this institution. We need a better understanding, and our taxpayers need a better understanding. Frankly, I am not sure where all the clamor for a taxpayer bail-out is coming from.

I want to close my brief remarks by saying to you, Mr. Chairman, I hope that they are not coming from the savings and loan industry. But I have some suspicion that maybe they are quite interested in letting us pay what historically they paid for as an industry.

I look forward to the testimony here today. Thank you, Mr. Chairman.

Chairman CHILES. Thank you, sir.

Mr. Wall?

Mr. **Wall**. Good morning, Mr. Chairman and members of the committee. It is my pleasure to be with you, and I am accompanied this morning by my two colleagues on the Board, Larry White and Roger Martin. We all stand ready to respond to your questions and to pursue the issues as you would decide to address.

If I might briefly walk through the printed testimony and, of course, point out that there is a substantial printed testimony as well as a set of responses to your 15 questions, Mr. Chairman. However——

Senator **Riegle**. Mr. Chairman, excuse me just a moment.

Chairman **Chiles**. Yes.

Senator **Riegle**. We did not discuss this ahead of time. I have a very brief opening statement. I think I would like to make it before we get into this, if that is all right with the committee.

Chairman **Chiles**. It is all right. I looked to try to see if anybody had an opening statement.

Mr. Wall, if you will excuse us just a minute. I might say that we are going to question Mr. Wall first, and then we will have a panel after that. But we will let Mr. Wall make his statement and question him first, and then we will take up the panel.

OPENING STATEMENT OF SENATOR RIEGLE

Senator **Riegle**. Thank you, Mr. Chairman.

The reason I want to make the statement is that, while I have been a member of this committee now for a number of years, I also serve as a member of the Senate Banking Committee. And I would indicate to my colleagues that I do not see any other Banking Committee members present here at the moment on the Budget Committee. But this is a matter of grave concern to the Senate Banking Committee as well, and a lot of work has been done on this. And I would like to just reflect on a point or two from that work.

Certainly, many of us, and I in particular, have been concerned about the varying estimates of the size of the problem facing FSLIC. There has been some reference to that already. The Bank Board has consistently underestimated the cost of resolving the thrift crisis, revising its estimates five times in just the past 18 months. Those estimates have gone from $16 billion to $23.5 billion to $22.7 billion, and recently to $30.6 billion. Today, we are going to hear, apparently, that there will be another upward adjustment ranging somewhere between $45 and $50 billion.

I am sorry to say that those estimates are still low and below what we are likely to find the true facts to be.

I find it very difficult to understand why the Bank Board has had to adjust its estimates upwards so many times in such a short space of time. With two exceptions, witnesses testifying before the Senate Banking Committee 5 months ago on May 19 placed their estimates between $45 billion and $64 billion, and one of those exceptions, which was GAO, the General Accounting Office, has since increased its estimates, as has Bank Board member Mr. Martin.

The American Bankers Association estimates the problem at $74 billion. That is the American Bankers Association.

I am also concerned that, unlike FDIC-assisted transactions, very few details of the FSLIC mergers are made public. I think this is a real problem. Under these circumstances there is no opportunity to publicly analyze precisely what these mergers contain.

Finally, I am also concerned by the oft-repeated criticisms of many commentators that in a number of transactions acquirers bear very little risk of significant losses in their deals; whereas, the government appears to have very little potential profit in any successful transactions. For example, the Bank Board's August 31 press release on the consolidation of 14 insolvent S&L's in Oklahoma refers to the provision by the FSLIC of the following: "$1.2 billion in FSLIC notes, capital loss coverage of certain assets"—these are in quotes—"10-year yield maintenance agreements on non-performing assets, standard indemnifications, and standard forbearances." All of these things are roughly projected to cost $1.9 billion and could, in fact, cost much more.

There is, however, no mention of any arrangements which would allow the FSLIC to share in any appreciation of assets or recovery of the institutions involved. So these are some of the underlying questions, in addition to the question of the estimate.

I would just say one other thing, Mr. Chairman. In terms of the assessment of the size of the loss—I say this to my colleague from New Mexico—virtually every serious observer puts these projected losses in excess of $50 billion, some $75 billion. I talked to one of the top financial leaders in the country this week by phone who says the figure will exceed $100 billion. And the problem is the money is gone. The money has been lost and squandered, and it is going to have to be replaced. This committee, obviously, is going to have to face this problem and determine its implications for the Federal budget.

I thank the Chair.

Chairman CHILES. I have a statement here of Senator Grassley, who was here but had to leave, that will be placed in the record at this time.

OPENING STATEMENT OF SENATOR GRASSLEY

Thank you, Mr. Chairman.

Over the past several years now the thrift industry has been wrought with financial crises. Indeed, estimates for the cost of fixing the problems range from $30 billion to a high of almost $100 billion. Even assuming the low estimate, it is doubtful whether FSLIC has the resources to complete the task.

This premise notwithstanding, Members of Congress, and particularly of the Budget Committee, ought to be very jealous of expending tax dollars to bail out the savings and loan industry. A taxpayer bail-out should not be authorized under any terms without full understanding, not only of the extent of the problem, but also of its proposed resolution.

It is also my urging that Congress, and again particularly the Budget Committee, consider the immediate and long range impact of the federal budget and on the thrift industry.

It may be tempting to use this forum to discuss matters which properly fall in the jurisdiction of the Banking Committee. I hope that the two committees will cooperate on those aspects of the problem which involve U.S. taxpayers and thrift customers.

At all costs, however, it is essential that Members not politicize this matter. The very survival of a vital section of our nation's financial system may be at stake.

Senator **Kasten**. Mr. Chairman.

Chairman **Chiles**. Yes.

OPENING STATEMENT OF SENATOR KASTEN

Senator **Kasten**. Mr. Chairman, I would like to ask unanimous consent to put my entire statement in the record at this point, and just say that the thrust of my statement follows along what the Senator from Michigan said in terms of the different estimates that we are seeing of what the total cost of resolving the FSLIC crisis is going to be. I think it is important that today we deal with that.

I am concerned as well about the regional issues here that involve the entire industry. I happen to be from a State in which the savings and loan industry by and large has been managed conservatively and managed very, very well. And the question here—and this is included in my statement—is: Is it really correct to ask the industry in States like Wisconsin to, in effect, finance the closure or the restructuring of insolvent S&L's in Texas or in California or in other States, when, in fact, it was not our problem?

So, in addition to the taxpayer problem the Senator from Michigan dealt with, we have got a real question as to how you can pinpoint the responsibility for what has happened. Clearly, some of that responsibility is in the hands of the regulators. But a large part of that responsibility also rest with the people that were mismanaging these troubled institutions. And to ask the solvent, responsible, conservatively managed institutions which did not engage in unsound financial practices to now come in and bail out the ones that took the risks is asking an awful lot.

I hope that we can deal with this question during this hearing, and also as we work with this problem later. So I ask unanimous consent to include the entire statement in the record as if read.

Thank you, Mr. Chairman.

[The prepared statement of Senator Kasten follows:]

Statement of Hon. Robert W. Kasten, Jr.

Thank you for recognizing me, Mr. Chairman.

I understand the prominent and essential role that the savings and loan industry has played in increasing the supply of affordable housing for millions of families in Wisconsin and across the country. Wisconsin S&L's continue to play that role; they are, by and large, managed conservatively and well.

Irresponsible lending practices by S&L's in other parts of the country, however, have crippled FSLIC and threaten to impose a substantial burden on the entire economy. I believe it is imperative to search for ways to limit that burden.

It is impossible for the savings and loan industry in states like Wisconsin to finance the closure or restructuring of insolvent S&L's in Texas, California and other states. The General Accounting Office has estimated that it would take up to $50 billion to resolve all of the FSLIC's problem cases—a figure well beyond what the industry can afford to pay.

However, we live in a time of large federal deficits and increasing demands for more spending on health, education and environmental protection programs. Under these circumstances, the taxpayers of this country will not understand why they should foot the whole bill for fraud, and mismanagement in one industry.

I see no easy answers to the problem of funding a resolution of FSLIC's problem cases. Nor do I see an obvious alternative to resolving a number of these cases through mergers rather than by closing insolvent thrifts. I do, however, want to raise concerns about three aspects of this policy.

Chairman **Chiles**. Senator.

OPENING STATEMENT OF SENATOR NICKLES

Senator **Nickles**. Mr. Chairman, I am glad that we are having this hearing today. I think it is important. This is an important issue. It is one that not only this administration but the next administration probably is going to encounter as one of the biggest problems that they have confronting them in the first quarter or two of next year. Maybe today's hearing will help us understand the parameters of the problem.

I know in my State the problem is very significant. Mr. Wall, when he was coming before not only the Appropriations Committee but this committee and the Banking Committee and others, I told him I think he has the most difficult job in government basically because of changing financial structures and interest rate changes certainly. But all of us are well aware of the fact that FSLIC was under-funded and under-financed.

I think Congress contributed to this problem. I remember when we passed net worth certificates back in 1982 and 1983, and all of us seemed to think that that was a very good idea. But it may well have contributed to the problem. When we passed the recapitalization plan, when Mr. Wall and others were asking for more money, Congress was talking about a much smaller amount of money. It took us about 1½ years to do that. I think that contributed to the problem.

I can say as far as my State, where we have had 21 institutions which have either failed or been merged, troubled institutions, whose problems have been greatly exacerbated in the last few years, and during that time Congress did little to help solve the problem and may have actually exacerbated the problem.

So I do not know if the real solution today should be pointing fingers at who is responsible so much, but to try and figure out what kind of positive, constructive solutions we can make and plan on for next year. So I am glad that we are having the hearing today.

Chairman **Chiles**. Now, Mr. Wall.

STATEMENT OF M. DANNY WALL, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD, ACCOMPANIED BY LARRY WHITE AND ROGER MARTIN

Mr. **Wall**. Again, it is our pleasure to be here, contrary to what some might think. [Laughter.]

If I may I would like, as I said, to briefly and quickly walk through the testimony that has been submitted to you. And I am sure there will be interest in returning to various points raised. I will not, at this point try to respond to some of the points that have been raised by the Senators in their opening comments but will come back to them as and when you would like.

I do not think it is appropriate to look at the question of deposit insurance without looking at where, in fact, deposit insurance comes from, deposit in an historical sense. I have not seen anyone or any of the various reviews and discussions that have either been in print as of late or are under way—that have gone back to the beginning.

In 1934, legislation was passed to create deposit insurance and provide for a level of premiums of one-fourth of 1 percent. At that time, the chairman of the FDIC, it would appear from the record that is there, proceeded to look back 70 years with insurance actuaries to determine what the premium ought to be, or ought to have been to have provided for the failures that had occurred since the passage of the National Banking Act 70 years earlier.

The result of that study, which was available a year later to the Congress in 1935, concluded that the level of premium should have been 32 basis points—that is, just about a third of 1 percent which was higher than the one-fourth that Congress put in place—in order to provide for the three categories that the insurance industry and insurance disciplines deal with: normal, abnormal and catastrophic risk.

The Congress did not pass legislation authorizing a higher premium. Instead Congress passed a lower premium, and further lowered the premiums over time ultimately to one-twelfth of 1 percent. So instead of 32 basis points, it became eight basis points. The deposit insurance premium versus even then an historical review of what the cost and what the premiums ought to have been was underpriced. Deposit insurance premium has not been at the appropriate level for any of those who are participating in a deposit insurance mechanism.

It should come as no surprise that subsequent reviews and studies of deposit insurance have in fact, demonstrated need for action. In the 1982 legislation that was known as Garn-St Germain, there was a provision requiring the three deposit insurance entities—the Credit Union Share Insurance Fund, the FSLIC, and the FDIC—to do a self-study, to come back to Congress within 6 months, and to make their recommendations. Each of those deposit insurance entities did so precisely on time, which is quite unusual in the Government in this day and age. And I think it was a recognition by those entities at that time that the Congress was serious about wanting to get a response to that study.

I might remind some of the members of this committee—I know one certainly knows it well—that the impetus for those studies came directly from the failure of Penn Square Bank in the State of Oklahoma on the 4th of July in 1982. So that history in the sense of looking at deposit insurance is as recent as 1982.

Out of those three sets of recommendations came specific recommendations on recapitalizing the Credit Union Share Insurance Fund, which, in fact, was enacted into law about a year later, the so-called "1-percent solution." So the Congress has, in fact, dealt with deposit insurance as recently as calling for the studies in 1982 and legislating in the 1983–1984 period with respect to at least initially, the Credit Union Share Insurance Fund. Additionally, legislative actions have been taken, albeit modest, in the area of FDIC and the FSLIC.

So that is on the deposit insurance side. There has to be a step back to look over what is the history that is available to us so that we not be forced to, in fact, repeat it, as is so often stated phrase.

Additionally, in the area of financial reform, there have been any number of studies going back to the Brookings study of 1937, the Hoover Commission of 1949, the Commission on Money and Credit in 1961, the Hunt Commission in 1973, and the FINE Study in 1975. Subsequently, Congress has done very, very little in the area of financial institution regulation restructuring. The basic regulatory framework and the structure of the insurance funds remain as they were originally designed with that lower premium structure.

There are a number of reasons as to why we are here. I do not want to spend a lot of time regurgitating the history in the sense of the specific problems in the thrift industry and in the Southwest in both banking and thrifts. But, briefly, we had the deregulation of interest rates that occurred in 1980, where the deregulation occurred on the liability side with only one very minor provision for expanded authority on the asset side, and that was variable rate mortgage authority.

Additionally, deregulation on the asset side in terms of some of the States began to occur in that time frame, as the problem of their chartered institutions—bank and thrift alike, institutions began to be one of trying to deal with that so-called interest rate spread that occurred in the late 1970's, early 1980's. In response State legislatures began to act. But, in fact, the statutes that existed in the State of Louisiana had always been liberal. But with interest rate restrictions in place, they could not get the money with which to undertake some of those more permissive and perhaps riskier activities. But as interest rate deregulation occurred, they could immediately proceed to utilize those more permissive structures that were there and additionally, California, Florida, Utah, Ohio, and a number of other States significantly liberalized their charters in that 1982, 1983, 1984 period so as to permit an expansion of what State-chartered institutions could do in a time frame where, of course, they were still being insured at the Federal level. And without question, there were insufficient "cops on the beat," as I have come to term it, whether they be State or whether they be Federal, at a time when those deregulation activities were occurring on the State side as far as assets were concerned; and, of course, with regard to all institutions on the liability side as the interest rate deregulation had occurred as of 1980 and was then being put into effect through that Depository Institution Deregulation Committee—or DIDC, as it was called—which had a 5-year lifetime.

Additionally, we should note the matter of the uniquenesses of the institutions' structure as far as the State of Texas as well. The State of Texas was quite an anomaly in the industry, having almost all of its industry in stock form rather than mutual form of structure. At a time when nationally the average was about one-fourth of the institutions organized in stock structure, about 95 percent of the institutions in Texas were owned in a stock structure. Additionally, almost all of those institutions in Texas were State-chartered so as to be able to utilize that more liberal charter that was already in place.

As far as the situation of the industry, the uniquenesses of Texas, was an additional reason for the concentration of problems that we have seen. Obviously, the booming oil patch economy that occurred generally in the Southwest was focused on the State of Texas. And it brought about and further added to the ability and the interest that people had, in terms of real estate syndications to make investments in what was seen as a hot market. There were bets being made as high as $70 for a barrel of oil. Ask Continental Illinois Bank, ask the former Seafirst Bank, ask a number of other banks who were severely damaged by the failure of Penn Square Bank. They had made a bet on the booming oil patch economy.

The situation with regard to the boom-bust cycle very much affected in the State of Texas as well as the States around it, the so-called oil patch States, and was further exacerbated at very nearly the same point in time by the legislative action in terms of the Federal tax code, as far as changing the tax provisions that had otherwise encouraged and been incentives for real estate syndications. So you had a double banger, a double whammy, if you please, as far as real estate in what had been seen to be the part of the country in which much of the real estate investment was being made.

Additionally, and as has been pointed out by several of the members already here this morning, when the agency and when the administration came to the Congress in early 1986 with their request for a recapitalization of the Federal Savings and Loan Insurance Corporation, it took very nearly 19 months. And it was one-third less than had been asked for 19 months earlier. So in terms of the problem continuing, the problem was there then and the problem continues in terms of trying to deal with the losses—as has been said, the losses that were there and now finally are being recognized.

Finally, the President then was able to sign the legislation into law on August 10th. A factor of critical importance sometimes overlooked in the kind of historical review I have just outlined is that it is the function of the system of deposit insurance to protect depositors, not the management of thrift institutions, and not the stockholders of thrifts that are structured as stock associations. That fact is so often overlooked, frequently in the headlines in the newspaper that say a savings and loan has been "bailed out." The savings and loan institution is not "bailed out"—ask the former management, ask the former stockholders. They are, if you please, history, in the sense of that institution.

Clearly, in 1988, we have begun a procedure where we have finally gotten the FSLIC operation, in terms of case resolution, back on track after the period during the FICO recapitalization efforts of 1986–1987. The agency felt it had to be very careful with the cash resources, not knowing when and/or if FSLIC would be recapitalized which basically brought FSLIC to very nearly a dead stop. Contrary to the public view or the public theories in terms of people working in the Government, people at FSLIC who were not challenged by the opportunity and by the activity of case resolution left. They saw no reason to stay. They did not know when the FICO recap was going to be provided. They had no idea when there would be resources with which to permit FSLIC to move forward. So when we arrived there 15 months ago, we found FSLIC with most of its senior positions vacant or occupied by acting career members of the Government, and with insufficient management expertise, insufficient management skills and insufficient experience in a general sense. So we had to re-crew, in a sense, that ship, get it back up to steam, and get it under way. So that process has taken time, and, indeed, we are finally now back up to speed and we are resolving the cases at what some have said is too fast a pace. On the other hand, just a few weeks ago, we were being criticized for not moving fast enough.

Back to what has been said: we are damned if we do, we are damned if we do not. I can give you about eight or ten different variables about which the same thing can be said.

But we have clearly, in this calendar year, now dealt with 122 institutions; in the past 12 months, the fiscal year just past, have dealt with 142 institutions in the fiscal year, at an estimated cost of $23.5 billion.

As I noted earlier, we have revised, and will continue to revise our estimate of the size of the thrift industry insolvencies and related projected costs to FSLIC. This is done whenever our analysis warrants a revision based upon changes, good or bad, in the underlying conditions and circumstances of the industry.

I am today providing this committee with FSLIC's most current estimate of the cost of resolving all GAAP-insolvent institutions. We project that cost to range between $45 and $50 billion. The methodology of making this estimate is one that, if you care to, we can spend a good deal of time describing. Again, suffice it to say when we arrived and were constituted as a new board 14 months ago, Board member Martin having joined us a month after I arrived, we looked to the question of methodology and were not satisfied with the methodology that was there. We, together with the GAO designed and built a methodology in late 1987, early 1988 on which to base our financial report for calendar year 1987.

We had to begin from what we felt was scratch, and we dealt with it on that approach. We have a methodology that provides a cost estimate of case resolution for every institution of $100 million or more. And when we were dealing with a total number of cases of 511 at that point in time, that was a significant task to undertake.

Indeed, we also agreed with the GAO that in order to have a base of reference that was common for everyone and easily recognizable and understandable, we would not identify the so-called FSLIC cases as all of what we had to deal with. We did not deal with just the RAP-insolvent—that is the Regulatory Accounting Principles insolvent—institutions. We dealt with all of the GAAP-insolvent institutions which, under our current regulations, we do not have the ability, in fact, to take action against. So we dealt with a larger number of institutions than any of the regulatory authorities that are currently in place would have otherwise permitted us to do.

Using the experience factors that we now have under our belt as we have dealt with these 142 institutions during our time here in the last fiscal year, we have developed a range of costs for the resolution of future FSLIC cases. The range is $24.9 to $29.9 billion. To the above must be added the estimated $20 billion in FSLIC notes and guarantees under assistance agreements of previously resolved cases that must be paid over the next 10 years.

Let me point out at this point that there are three additional categories of potential resources that are real, that are identifiable, but that we are not including in our estimate. They are, if you please, additional resources to be available should our estimates be proven to have been wrong, or should other institutions fail. These are our cushion, if you please: first, the tax sharing that we, in fact, participate in as far as the merged or closed institutions; and secondly, the ownership or profit-sharing interest that we get, profit-sharing if it is a mutual institution, the ownership if it is a stock institution. We are not attempting to provide an estimate for the tax sharing, or the ownership or profit stream. Thirdly, we are not trying to estimate the amount of asset recovery in the State of Texas. We are indicating in our estimates that we get nothing from recovery of the assets in the State of Texas.

Although we now have a greater base of experience, it is important to realize that these numbers are truly estimates, subject to still further change. As is and has been the case for all such estimates, the ultimate cost of resolution could be either greater or less, depending upon future asset values in the Southwest and the future level of interest rates, and the recovery of the markets in which, in fact, the institutions are located.

The experience we have gained and continue to gain from our case resolution efforts is invaluable for the Bank Board, as well as for the administration, the Congress, the taxpayers, and the industry itself. This experience is critical to the success of our future endeavors; from it we can learn more about how to reduce costs. Our experience has already resulted in improved data which assist us in resolving individual institutions; the increased volume and quality of data is proving to be useful as we evaluate future problems. We also have improved methods of marketing our cases and negotiating and finalizing deals. Additionally, I would note that a market recovery appears to be under way in several regions, even within the State of Texas. Moreover, more competition is increasing the amount of resources that is available to resolve, through acquisition, the institutions in our caseload.

Delaying the resolution of troubled thrifts has proven costly, not only in terms of the increased costs to resolve individual problem thrifts, but also in terms of the interest rate premium that healthy institutions must pay in order to compete for deposits with troubled thrifts. The beneficial effects of the consolidation effort in Texas are fully demonstrated by the significant drop of 39 basis points in the Texas cost of funds that has occurred since the end of December 1987. There is a chart on page 16.[1] The reduction in the Texas cost of funds comes at a time when otherwise the cost of interest has gone up.

I believe that in the past year the FSLIC has made significant strides in resolving FSLIC cases and, though subject to the vagaries of future economic conditions, realistic projections today indicate that FSLIC possesses adequate resources in the near term to deal effectively with the immediate problems of troubled institutions.

In closing, there are three issues that are pending in the legislative environment as you are approaching what I am sure everyone is hoping is the adjournment of this session of Congress. First, and I would say, in fact, perhaps most disappointedly, I remind the Congress that they have failed to enact the additional regulatory enforcement language that the five bank regulatory agency unanimously sent to this Congress early this calendar year—I believe it was in February. The language still has not been passed by the Congress, and those who would continue to talk about the thrift problem in terms of "never again," among which we find ourselves to be perhaps some of the loudest advocates, are very disappointed that we do not have that additional enforcement authority.

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[1] See prepared statement p. 31.

Very simply stated, what it would give us is the ability to do something other than, on the one hand, slapping the hand of management that is doing something we do not think they should be doing, or, on the other hand, shooting them. We have two options. We can write a letter of reprimand, if you please, and on the other hand, we can withdraw the insurance coverage that they have. That is too wide a breach so we specifically have asked for civil money penalty authority so as to give us some teeth in the midst. That is why we the five financial institution regulatory agencies, all of us, unanimously requested the same language, which language is before the Congress.

Additionally, the FSLIC IRS tax provisions are otherwise set to expire as of the last day of this calendar year. The Office of Management and Budget and the Congressional Budget Office agree that to simply extend that sunset date is, in fact—perverse as it may seem—a benefit to the budget, a net income to the budget.

If we do not get those tax exemptions in those tax provisions extended, we are going to have to pay more for case resolution, and our case resolution cost is an added cost to the Government's consolidated budget. On the other hand, the loss in terms of tax losses to the U.S. Treasury is less than the additional cost that everyone agrees we will experience. This legislative proposal too, languishes, as far as the tax writing committees are concerned. I do not think I can put it any more simply.

Third, then, the matter of the use of FSLIC notes. The use of FSLIC notes, I think, is analogous to the use of construction financing versus the permanent "take out" financing in a construction project. I am an architect by education, and I have seen fit, I think, to use that analogy as one that many people can understand. We utilize FSLIC notes as a way of leveraging to the present future cash availability. We are also providing for a shorter term, lower cost of the carrying of the obligations of FSLIC at a time when we are, if you please—again, continuing the analogy to construction finance—we are shaping the package that then has to be taken for some kind of more permanent sources of funds. And additionally, because cash, in fact, is fungible, we use the FSLIC notes for which we save very nearly 2 percentage points in the market today since the weighted average cost of our FSLIC notes is just over 8 percent, and a weighted average cost of the FICO borrowings, as an example, is just over 10 percent. There is a margin of 2 percentage points that we are saving by utilizing FSLIC notes.

I will repeat here my pledge from previous testimonies before both the House and Senate Banking Committees: We will not issue FSLIC promissory notes or FSLIC obligations generally in an amount greater than our future income sources and projected ability to repay.

The issue of the question of the appropriateness of a FSLIC note as an asset for a publicly reporting company is one that the AICPA has raised. We could spend a lot of time talking about the gnashing of teeth that is going on as far as the profession and as far as their clients are concerned. And it is one that we are trying to resolve.

We appeared before the House Banking Committee last month, just about a month ago today, and discussed together with Under Secretary George Gould of the Treasury this question. George Gould stated on behalf of the administration that it is their policy that FSLIC notes are backed by the full faith and credit of the United States. We believe that fact should be sufficient to settle the issue raised by the AICPA. However, in the event that this policy statement does not satisfy the AICPA, the Congress and the industry, we would support legislation providing the Government's full faith and credit backing for FSLIC notes, to get the question off the table if there is any question.

We are announcing today that Treasury will be recognizing that a FSLIC note is appropriate collateral for a Treasury tax and loan account, which is another utility of a FSLIC note. This announcement identifies for the market that the Treasury is, in fact, putting their money, if you please, where their mouth is on the question of the appropriateness of a FSLIC note.

The Bank Board and the GAO, as we both noted in our testimonies of September 8 and 15 respectively, before the House Committee on Banking, Housing and Urban Affairs, fully recognize that a full faith and credit backing would not alter the budgetary treatment for FSLIC notes, as this committee well knows.

In conclusion, the interim use of FSLIC notes within our projected resources is desirable in that it will provide the new administration, the agency, the next Congress, the taxpayers and the industry time to evaluate the whole question of deposit insurance structure and not just the current economic condition of each fund. Congress and the new administration must not act too quickly to pass judgment on these issues and should take the opportunity that using FSLIC notes as the interim solution provides, to consider all alternatives to the use of taxpayers 'funds in resolving the problems of the industry, keeping in mind the expiration of the FSLIC–FDIC moratorium on August 10 of next year.

Thank you, Mr. Chairman.

Chairman CHILES. Thank you, Mr. Wall.

[The prepared statement of Mr. Wall follows:]

STATEMENT OF

M. DANNY WALL, CHAIRMAN

FEDERAL HOME LOAN BANK BOARD

BEFORE THE

COMMITTEE ON BUDGET

U. S. SENATE

OCTOBER 5, 1988

Mr. Chairman and members of the Committee, I am pleased to appear before you today to discuss the condition of the Federal Savings and Loan Insurance Fund ("FSLIC") and its efforts to resolve the problems facing the thrift industry.

I. HISTORICAL PERSPECTIVE

Sources of the Problem

It is helpful to begin a discussion of the current problem by drawing some lessons from the history of deposit insurance. The first point I would make in this regard is that the regular FSLIC insurance premium -- currently set by statute at 1/12 of 1% -- was only intended to cover "normal" losses, not losses that are, in the language of the insurance industry, "abnormal" or "catastrophic".

The FSLIC was established in 1934 under Title IV of the National Housing Act ("NHA"). At that time, section 404 of the NHA authorized FSLIC to levy an annual insurance premium of 1/4 of 1%, or 25 basis points, on total deposits and creditor obligations. Subsequently, however, the Congress reduced the amount of the insurance premium authorized for both the FSLIC and the Federal Deposit Insurance Corporation ("FDIC").

In 1935, the Congress had before it data showing that, for the period beginning with the development of the national banking system in 1864 through mid-1934, the average loss per total deposit dollar was about 1/3 of 1%, or 32 basis points.[1] These same data also showed, however, that if the periods of financial crisis that occurred during that 70-year span (1873-78, 1892-97, and 1931-34) were removed from the data set, the average loss per dollar of total deposits declined to 1/8 of 1%, or 12.5 basis points. Leo Crowley, then- Chairman of the FDIC, argued that even this "non-crisis- period" premium of 1/8 of 1% was too high for banks to meet under the financial conditions prevailing in 1935. He suggested that the insurance premium be set at 1/12 of 1%, or 8.3 basis points. This is the premium amount that was subsequently incorporated in the Banking Act of 1935 for the FDIC.

The Barth Paper clearly delineates the significance of these data for the FSLIC:

> Effective July 1, 1935, Section 404 of the [National Housing Act] was amended at the request of the Bank Board, as suggested to the Committee on Banking and Currency in the House of Representatives on February 12, 1935, by Bank Board General Counsel Horace Russel. As part of the revisions of the NHA, Mr. Russel suggested that the FSLIC insurance premium on deposits be lowered [from 1/4 of one percent] to 1/8 of one percent of total deposits. Although he offered no specific justification for this revision,

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[1] *See* J.R. Barth, J.J. Fied, H. Tunis, and G. Riedel, "Alternative Federal Deposit Insurance Regimes" [hereinafter, the *Barth Paper*].

> no one on the Committee questioned his suggestion and the amendment was subsequently ratified. This was the first insurance premium reduction experienced by the FSLIC . . . .
>
> Russel's premium proposal was the same as the premium needed to insure complete coverage of commercial bank deposit losses for the non-crisis periods documented in Crowley's FDIC report. The lack of congressional debate about the appropriateness of the premium suggests that the content of Crowley's report was known before it was officially presented to the Committee ten days later. Lack of debate about the proposed reduction in premiums undoubtedly reflects the congressional desire to treat both organizations symmetrically. The other provisions of Section 404, those pertaining to the reserve/deposit ratio and the contingent secondary reserve, were unchanged. From the outset then, the FDIC insurance fund was not designed to cover the deposit losses resulting from periods of economical crisis. After the Great Depression, neither the FDIC nor the FSLIC attempted to increase their insurance premiums in order to bring them closer to the premiums needed to cover the historical loss data presented by Crowley or the more recent losses resulting from the severe downturn.
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> In 1950, Congress determined that both the FSLIC and the FDIC had excess insurance reserves and that the then-present rate of accumulation was unnecessary in the economic environment following [World War II]. Thus, in 1950, the FSLIC had its annual premium cut to 1/12 of one percent of total deposits, while the FDIC had its premium reduced in effect by being required to rebate excess reserves.[2]

In my view, this historical review demonstrates that Congress did not intend that the deposit insurance system cover the abnormal levels of loss -- or, the catastrophic

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2. Id. at pp. 2, 3.

levels of loss -- being experienced by portions of the thrift industry today. As Chairman of the Bank Board, I have no choice but to require that whatever premiums are permitted by law continue to be levied to resolve troubled thrifts.

History also shows instances in which the Congress has studied or considered structural changes to the financial services industry. Proposals for overall reform of the financial regulatory structure, including the deposit insurance agencies, have surfaced numerous times over the intervening years, starting with the Brookings Study of 1937 and followed by such studies as the Hoover Commission of 1949, the Commission on Money and Credit in 1961, the Hunt Commission 1971,[3] and the FINE Study of 1975. Each of these reform proposals focused on the relationships among the regulatory agencies and the deposit insurance agencies. Notwithstanding these commissions and studies, however, the basic regulatory framework and the structure of the insurance funds remain as they were originally designed.

This rigidity in the structure of the insurance agencies has persevered despite dramatic changes that have occurred in the financial marketplace and despite other developments -- both legislative and economic -- that have had profound effects on the thrift industry. It is important to remember that deregulation of the thrift industry occurred in two major stages. Deregulation of interest rates, that is, the liability side of the thrift balance sheet, occurred in 1980. But, at that time, virtually no attention was paid to the asset side. Thus, during the interest-rate "spike" that occurred in the late 1970s and early 1980s the thrift industry was suddenly forced to pay unprecedented rates on its deposits while earning relatively low rates on its primary assets -- long-term, fixed rate mortgages. Although Congress and the regulators began to attempt to deal with some of these problems, at that time,[4] high interest rates coupled with interest rate deregulation resulted in the collapse in profits at hundreds of thrift institutions. Indeed, only 20 to 25 percent of all thrifts were profitable in 1981 and 1982.

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[3] *See, e.g.*, Federal Home Loan Bank Board, *Agenda for Reform* 160 (March 1983). *See also* *Report of the Committee on Financial Institutions to the President of the United States* (April 1963).

A number of the unprofitable institutions became insolvent and many were liquidated or merged. In fact, during the period from 1980 to 1982, more than 350 institutions were closed or merged for supervisory reasons. Some unprofitable thrifts were kept open through various combinations of assistance. The industry as a whole was given the opportunity to add earning assets. As market interest rates declined a few years later, most institutions returned to profitability. In fact, by 1984, 70 percent of all thrifts were profitable.

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[4] In 1980, Congress passed legislation preempting state interest rate ceilings on federally-related loans secured by first liens on residential mortgages. Also in 1980, the Board adopted a resolution providing for negotiable rate loans and the following year revised the regulation to permit adjustable rate loans and graduated payment mortgages. In 1982, Congress, in Title VIII of the Garn-St Germain Depository Institutions Act of 1982 Pub. L. 97-320, 96 Stat 1469, 1545 authorized state-chartered associations to enter into alternative mortgage transactions, including adjustable rate loans even where prohibited by state law.

The deregulation of the asset side of the thrift balance sheet also began to have demonstrable consequences, however. Some states -- Texas and Louisiana, for example -- already had broad investment powers for their state-chartered thrift institutions. When interest rates were deregulated in the early 1980s, thrifts in such states suddenly found themselves with funds that they could then use to exercise those broader powers.

Other states -- reacting to the severe problems of asset-liability mismatch -- liberalized their charters in the early 1980s. California, deregulated thrifts' investment powers effective January 1, 1983. Florida, Utah, Ohio, and many others also enacted legislation liberalizing investment authority for their state-chartered institutions. Of course, federally chartered associations received broader investment authority in 1982 this new authority was still more restrictive than that available under many state laws.

Neither at the state nor at the federal level were there adequate supervisory controls in place to monitor the vastly expanded activities in which thrifts were engaged by the mid-1980s. I have spoken many times, before the Congress and elsewhere, of the Bank Board's efforts, especially in mid-1985 and since, to correct those deficiencies in our system. It does bear mentioning, as we review the historical record, that during an important period of expanded powers for the industry, the Bank Board and the FSLIC lacked sufficient resources to provide frequent enough examination and thorough enough supervision for both federally chartered associations, where our responsibilities are all encompassing, and for state-chartered, FSLIC-insured associations, where our responsibilities extend primarily to protection of the insurance fund.

One example will illustrate how weaknesses in the state regulatory and supervisory framework can affect the FSLIC. In Texas, during the period under discussion, change of control of state-chartered thrift institutions could be effectuated merely by the acquisition of stock in the marketplace. There was, at that time, wholly inadequate state supervision over changes in control. Moreover, virtually all Texas thrift institutions were structured as stock, not mutual, institutions, at a time when only one-quarter of the industry nationwide was chartered in stock form. Additionally, virtually all Texas thrifts were state-chartered and not federal associations. Merely reviewing these conditions as they prevailed in Texas in the mid-1980s suggests some reasons why the industry has experienced such difficulties in that one state.

No enumeration of the financial problems in that portion of the country can possibly exclude the dramatic impact that the energy sector of the economy has had there. The market created by the booming "oil patch economy" was for a while a highly attractive one. The first widely publicized indication that the promise offered by this market would not be fulfilled came with the collapse of the Penn Square Bank in mid-summer of 1982. That institution's failure reverberated throughout the financial services industry and, indeed, damaged some of the most sophisticated credit underwriting institutions in the country. Especially hard hit were SeaFirst and Continental Illinois banks. The deterioration that the collapse of the energy sector of the economy has caused for thrift institutions is, in a real sense, the proximate cause of the crisis that the Texas segment of the thrift industry faces today.

The problem has been further exacerbated by certain provisions of the Tax Reform Act of 1986 that adversely affect real estate values. Most significant among these changes is the reduced depreciation benefit that makes investment in both commercial and residential property less attractive. Noteworthy negative effects also resulted from the limitation of offsetting losses on passive investments that affect limited partnership syndications and the elimination of the favorable capital gains treatment.

Finally, when the Bank Board realized that it could not solve the problems of the thrift industry without help, the Congress was slow in responding to the Board's pleas. The Bank Board and the Treasury Department submitted a $15 billion FSLIC recapitalization proposal to the Congress in very early 1986. By the end of that Congress, no legislation had been enacted. When the new Congress returned in 1987, months of debate ensued over the appropriate level of FSLIC recapitalization, centering on whether $5 billion in borrowing authority would be enough. When Congress acted, it failed to authorize the full $15 billion in borrowing authority that had been requested. Instead, the resolution was the $10.825 billion recapitalization legislation that the President signed into law on August 10, 1987. While the slow pace of the legislative response does not alone explain the problems facing the thrift industry today, it nevertheless contributed to the velocity of the deterioration of the unhealthy segment of the industry.

These then are some of the historical factors that have brought us to where we stand today. A fact of critical importance, sometimes overlooked in the kind of historical review I have just outlined, is that it is the function of a system of deposit insurance to protect depositors, not the management of thrift institutions and not the stockholders of thrifts that are structured as stock associations.

Problem Management

We believe that we have made good progress toward resolving the problem institutions in the FSLIC's caseload. Case resolution has proceeded at a rapid pace since May of 1988. The numbers discussed below are only estimates. More accurate figures will be available following final accounting close on FY 1988.

To date, in calendar year 1988, FSLIC successfully resolved 122 institutions. On a fiscal year ("FY") basis, total resolutions since last October amount to 142 institutions. A total of 118 troubled institutions were resolved through assisted mergers or acquisitions ("M&As") and an additional 24 were liquidated through insurance settlements, for an estimated cost of $23.5 billion in FY 1988. Of the 118 assisted acquisitions, 42 institutions were resolved under the Southwest Plan in FY 1988. The 118 M&A transactions saved the FSLIC approximately $3 billion from the estimated cost of liquidating the institutions.

II. CURRENT PERSPECTIVE

Cost of Case Resolution

As I have noted earlier, we have revised, and will continue to revise, our estimate of the size of the thrift industry insolvencies and related projected costs to FSLIC.

This is done whenever our analysis warrants a revision based upon changes, good or bad, in the underlying condition and circumstance of the industry.

I am today providing this Committee with the FSLIC's most current estimate of the cost of resolving all GAAP insolvent institutions. We project that cost to range between $45 and $50 billion.

In estimating the future costs to FSLIC of resolving insolvencies, FSLIC has sought to observe accounting disciplines that govern such determinations. Accordingly, during the period from November 1987 to May 1988 the FSLIC in cooperation with GAO, other Bank Board offices and District Bank Supervisory Personnel developed a methodology for estimating the potential cost of resolution for all GAAP-insolvent institutions. The initial estimates of our costs were developed for our audited financial statements based upon third-quarter data updated through 12/31/87. The numbers were based on current accounting theory as it relates to estimable and probable losses. At that time FSLIC did not have an adequate current experience base to use for other types of analysis. This was due to the extended period during 1986 and 1987 when FSLIC lacked resources to engage in significant case resolutions.

The December 31, 1987 allowance for loss of $17.4 billion as reported on FSLIC's financial statement represents, in part, actual bid prices that FSLIC had for institutions in its caseload. If a bid price for an institution in the caseload, FSLIC used Analysis and Evaluation Division ("AED") or District Bank costing of estimable and probable losses. Additionally, an estimate was included for institutions in the Southwest Plan that was not a part of the FSLIC caseload as of 12/31/87. As stated in a footnote to the audited statement, "the $17.4 billion allowance for loss on unresolved cases only includes future assistance that is probable and can be reasonably estimated and is not a projection of the cost of resolving all future problems in the savings and loan industry which present projections indicate could amount to $22.7 billion or more." The additional $5.3 billion added to the on-balance sheet projection of $17.4 billion represented the negative tangible net worth of all other GAAP-insolvent institutions that were not accounted for either in the FSLIC caseload or in the estimate for institutions in the Southwest Plan. $5.3 billion was used to estimate the cost to FSLIC for those institutions due to: (a) the lack of definitive historical data to project future costs, (b) the fact that experience shows that not all GAAP-insolvent will require FSLIC assistance (c) uncertainty in regards to future asset value in the Southwest Plan which could materially affect the amount of required future assistance. GAO's review of this additional figure resulted in its concluding that a higher figure should be used to reflect the contingency for other GAAP-insolvent institutions.

At mid-year the FSLIC issued detailed cash flow projections with estimates of future resources and case resolutions costs over a 10-year period. This was the most detailed comprehensive set of numbers that the FSLIC had ever provided to the Congress and the public. During the preparation of the cash flows we were able to analyze actual resolution costs on Southwest cases and compare them to our previous year-end estimates. Experience showed a continuation of asset write-down in the Southwest and a need to revise our numbers. Based on our experience, we included an additional $8.2 billion in costs for the Southwest which revised our total numbers upward to a cost of $30.9 billion. Experience factors in other parts of the country did not indicate a need to revise our other estimates.

As of the end of the third quarter the FSLIC is once again updating our estimate to reflect the cost of resolutions in the first nine months of this year. The experience factors generated by these resolutions are also being used to project future costs on unresolved cases.

Our revised estimate was derived by identifying all unresolved institutions in FSLIC's caseload as of October 1, 1988 plus all other thrifts that are not currently in FSLIC's caseload but were reported as insolvent under Generally Accepted Accounting Principles on June 30, 1988.

The above analysis yielded an estimated 419 unresolved institutions that may require FSLIC financial assistance in the future. Sixty-six of these institutions have specific bid costings completed by FSLIC's AED. Where such bid costings are available, they were used as the estimated cost of resolution. FCA/American was separately costed at at $2 billion net present value. All other insolvent institutions that have not been bid costed (352 thrifts) were costed at their negative tangible net worth as reported on June 30, 1988. This methodology is basically the same as that used by Mr. Frederick Wolf of GAO in his recent testimony.

Using the experience factors mentioned above, we have developed a range of costs for the resolution of future FSLIC cases. The range is $24.9 to $29.9 billion. To the above must be added the estimated $20 billion in FSLIC notes and guarantees under assistance agreements of previously resolved cases that must be paid over the next 10 years. This yields a revised present value estimate ranging between $45 and $50 billion.

Although we now have a greater base of experience, it is important to realize that these numbers are truly estimates subject to still further change. As is and has been the case for all such estimates, the ultimate cost of resolution could be either greater or less, depending on future asset values in the Southwest and the future level of interest rates.

The experience we have gained and continue to gain from our case resolution efforts is invaluable for the Bank Board, as well as for the Administration, the Congress, the taxpayers and the industry itself. This experience is critical to the success of our future endeavors: from it we can learn more about how to reduce costs. Our experience has already resulted in improved data which assist us in resolving individual institutions; the increased volume and quality of data is proving to be useful as we evaluate future problems. We also have improved methods of marketing our cases and negotiating and finalizing deals. Additionally, I would note that a market recovery appears to be under way in several regions, even within Texas. Moreover, more competition is increasing the amount of resources that are available to resolve, through acquisition, the institutions in our caseload.

Cost of Funds

Delaying resolution of troubled thrifts has proven costly, not only in terms of the increased costs to resolve individual problem thrifts, but also in terms of the interest-rate premium that healthy institutions must pay in order to compete for deposits with troubled thrifts. The beneficial effects of the consolidation effort in Texas are fully demonstrated by the significant drop of 39 basis points in the Texas cost of funds that has occurred since the end of December 1987, as shown in he following table:

Description	1st Quarter	2nd Quarter	Change
Cost of Deposits: District 9	7.80	7.44	-.36
Cost of Deposits: Texas	7.98	7.53	-.45
Cost of Deposits: U.S.	7.15	7.09	-.06
1 Year Treasury	6.71	7.30	+.59
Texas Premium[5]	83bp	43bp	-39bp

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[5] (Texas Premium) = Cost of Deposit/Texas - Cost of Deposit/U.S.

I believe that in the past year the FSLIC has made significant strides in resolving FSLIC cases and, though subject to the vagaries of future economic conditions, realistic projections today indicate that FSLIC possesses adequate resources in the near term to deal effectively with the immediate problems of troubled institutions.

II. FUTURE

Financial Regulators Enforcement Initiative

The bank regulatory agencies, including the Bank Board, have invested significant time and resources to produce jointly a legislative initiative that would enhance our enforcement authority. This initiative, which has incorporated as Title VI of S. 1886, the Proxmire Financial Modernization Act of 1988, has the support of all the banking agencies. Some months ago, there were indications from Congress that this initiative would be passed this year. I urge you, in these last days before adjournment, to enact the enforcement initiative.

FSLIC Tax Provisions

Certain provisions of the Internal Revenue Code that affect FSLIC's ability to arrange for assisted acquisitions of troubled thrift institutions are set to expire at the end of 1988. The first of these provides that assistance paid by the FSLIC in connection with an assisted acquisition will not be considered taxable income. The benefit of this provision is not limited to the troubled institution or the acquirer; it also inures to the benefit of the FSLIC by reducing the amount of assistance otherwise needed. Other special provisions in the Internal Revenue Code's corporate reorganization rules clarify that a FSLIC-supervised merger or acquisition can qualify as a tax-free reorganization, such that the net operating and built-in tax losses of the troubled institution can be fully utilized by the acquiring institution. Here again, although the nominal benefit of this provision accrues to the acquiring institution, in a very real sense, the benefit inures to the FSLIC as a result of contractual agreements between it and the acquirer requiring that tax benefits enjoyed by the acquiring institution be accounted for and shared with FSLIC.

The Board fully expects substantial increases in the cost of case resolutions once these provisions expire. Additionally, since the tax treatment of FSLIC assistance absent the current tax provisions is not at all clear, it is probable that the pace of case resolutions will slow considerably as both acquirers, FSLIC and Internal Revenue Service will have to assess the impact the expiration of these tax provisions will have on assisted acquisitions of troubled financial institutions.

In this respect, both the Office of Management and Budget and the Congressional Budget Office have agreed that an extension of the tax provision will actually reduce the federal deficit for fiscal year 1989. OMB estimates that such an extension would reduce the FY-89 deficit by more than $600 million. According to OMB, a simple three-year extension of the expiring tax provision will reduce tax revenues by $1.1 billion over the FY 89-91 budget period, but will simultaneously reduce FSLIC budgetary outlays by over $2.1 billion, for a net savings to the federal deficit of over $1 billion during this same budget period. Stated differently, failure to extend the provisions would increase the cost of FSLIC case resolutions and substantially increase the budget deficit far beyond any revenue savings that may accrue upon expiration of these tax provision. Therefore, I strongly urge the members of this Committee to support an extension of the FSLIC tax provisions.

To avoid the costly impact of the loss of these favorable tax provisions, cases must be resolved before the end of 1988. The use of notes to facilitate these transactions allows the Board to use the special tax provisions in the manner Congress intended when it enacted the provisions in 1981 and is a prudent use of alternative resources to solve FSLIC's problems in the most cost efficient manner available.

Use of FSLIC Notes

Many of the case resolutions we have just completed involved the use of FSLIC notes.

The use of these notes is analogous to construction financing. In that regard, FSLIC notes are like short term, interim construction financing while FICO bonds and various other source of income available to be used over time are the "take out" or permanent financing for the building project. In effect, the use of FSLIC notes provides us with interim flexibility to deal with the problems we are currently facing and permits prompt application of existing resources and any other resources which might be made available to us.

The use of FSLIC notes in lieu of borrowing through FICO bonds has proven to be considerably less costly for several reasons. Because of the comparatively short-term nature of FSLIC notes as compared with FICO bonds, coupled with the tax-free interest on notes issued by FSLIC in its case resolution activities, we are able to issue notes bearing interest rates well below the rate demanded on FICO bonds. For example, as of September 30, 1988, FSLIC had notes outstanding of $12.3 billion with a weighted average rate of 8.03% compared to a weighted average rate on the FICO bonds of 10.01%.

Moreover, for those notes on which FSLIC has been required to pay rates at or near the FICO rate (primarily in the resolution of cases in the Southwest), we fully expect to receive a return (as much as one-third) of the interest paid when the note holder becomes profitable and returns to FSLIC the "tax benefits" associated with the tax-free interest on these notes.

In essence, the use of FSLIC notes has enabled the Board to resolve serious problem cases that it would not otherwise have been able to resolve. Using notes allows FSLIC to leverage its future sources of revenue. Had the Board been required to rely totally on current revenues and borrowing from FICO ($3.75 billion per year), we would have not been able to fund most of the M&As that have been resolved during the first nine months of 1988.

I would note that some have questioned the motivation for our recent increased case resolution activity involving the issuance of FSLIC notes. To a certain degree, this heightened activity is due to our developing expertise resulting from the initial deals consummated under the Southwest Plan. Moreover, we have put behind us the initial start-up time that was required before the first few deals could be effectuated. Lastly, the pace of case resolutions is attributable to our desire to keep our pledge to Congress made earlier this year to resolve the 259 institutions in the 1987 year-end caseload by year-end 1989 and the 252 CAAP insolvent institutions by 1992.

I will repeat here my pledge from previous testimonies before both the House and Senate Banking Committees -- we will not issue FSLIC promissory notes or FSLIC obligations generally in an amount greater than our future income sources and projected ability to repay.

As an appendix to my testimony, I have attached a brief history of the FSLIC's authority to issue notes which has been prepared by the Board's Office of General Counsel. It concludes that "section 406(f) by its own terms provides clear, implicit, independent authority to the FSLIC to issue notes for assistance purposes. In addition, section 402(d) provides explicit authority to the FSLIC to issue notes, which explicit authority may be exercised in conjunction with the authority of section 406(f)."

Section 406(f) of the National Housing Act, 12 U.S.C. § 1729(f), authorizes assistance under certain circumstances by the FSLIC "in its sole discretion and upon such terms and conditions as the Corporation may prescribe." The FSLIC provides assistance to or for the benefit of certain associations pursuant to this authority. The FSLIC also issues notes in connection with the payment of insurance pursuant to section 405(b), 12 U.S.C. § 1728(b), and the second proviso of section 402(i), 12 U.S.C. § 1725(i). The FSLIC issues notes to Federal Home Loan Banks pursuant to sections 402(d), 12 U.S.C. § 1729(d), and 402(i). Finally, the FSLIC issues notes to pay for net worth certificates pursuant to section 406(f)(5).

As you may be aware, in November 1987. the Accounting Standards Executive Committee and the Savings and Loan Association Committee of the American Institute of Certified Public Accountants ("AICPA"), put into effect Practice Bulletin No. 3 relating, in part, to contingencies related to obligations of the FSLIC. This Bulletin provided that FSLIC notes and other obligations of the FSLIC to institutions under assistance agreements should be evaluated for the likelihood of loss in accordance with FASB Statement No. 5. The Bulletin concluded:

> Although the FSLIC at present continues to meet its financial obligations under those agreements, the uncertainties about its financial condition leads to the conclusion that a loss is at least reasonably possible.

As a result of the characterization of a loss as "reasonably possible," FASB Statement No. 5 requires disclosure of loss contingency, and, if possible an estimate of the loss or range of loss.

It is the policy of the Administration that FSLIC notes are backed by the full faith and credit of the United States. We believe that that fact should be sufficient to settle the issue raised by the AICPA. However, in the event that this policy statement does not satisfy the AIPCA, the Congress and the industry, we would support legislation providing the government's full faith and credit backing for FSLIC notes.

Because there has been some confusion in reports of the press, I would like to note here that the Bank Board and the GAO, as we noted in our testimonies of September 8 and 15, 1988, respectively, before the House Committee on Banking Housing and Urban Affairs fully recognize that a full faith and credit backing would not alter the budgetary treatment for FSLIC notes.

IV. CONCLUSION

The interim use of FSLIC notes within our projected resources is desirable in that it will provide the new Administration, the agency, the next Congress, the taxpayers and the industry time to evaluate the whole question of deposit insurance structure and not just the current economic condition of each fund. Congress and the new Administration must not act too quickly to pass judgment on these issues and should take the opportunity, that using FSLIC notes as the interim solution provides, to consider all alternatives to the use of taxpayers funds in resolving the problems of the industry keeping in mind the expiration of the FSLIC-FDIC moratorium on August 10, 1989.

APPENDIX A

FSLIC Authority to Issue Notes

Section 402(d) National Housing Act ("NHA") provides that: "For purposes of this subchapter, the Corporation shall have power to borrow money, and to issue notes, bonds, debentures, or other such obligations upon such terms and conditions as the Federal Home Loan Bank Board may determine ..." 12 U.S.C. § 1725(d) (1982 & Supp. IV 1986). This section of the original Act (1934) gave authority to the FSLIC to borrow and issue notes. In 1950, subsection (i)[1] was added to section 402, and FSLIC's borrowing authority under subsection (d) was cut back to borrowing from the U.S. Treasury.

The 1950 amendment to subsection (i), however, specifically retained FSLIC's powers to issue notes in connection with the payment of insurance under section 405(b) of the NHA[2], notwithstanding the new limitation on "borrowing" under section 402(d). And the 1950 amendment did not purport to cut back the FSLIC's power to issue notes in connection with FSLIC activities under sections of the governing statute other than 402(d) borrowing.

Section 406(f)[3] is independent authority to issue notes, unaffected by changes in or limitations added to section 402(d) by section 402(i). Further, as noted above, section 402(d) still explicitly authorizes FSLIC to issue notes, an authority that may be exercised in conjunction with 406(f).

Subsection (f) was added to section 406 in 1935, and authorized the FSLIC "in its discretion" to make loans, purchase assets, or make contributions to prevent defaults of insured institutions. The Board's records of the first assistance agreements in the 1940's do not show that FSLIC issued "notes," but at that period the FSLIC could indisputably have issued notes under 406(f) and 402(d).

Section 406(f) was amended in 1978 in several respects: the FSLIC's already existing authority to issue notes under 406(f) and 402(d) was made even clearer by adding the language "upon such terms and conditions as it may determine" to the FSLIC's previously existing powers to make loans and contributions and purchase assets. The notes issued to purchase Income Capital Certificates starting in 1981 were issued under the language of 406(f) as it read in 1978. In adding subsection (f)(5) to section 406 (in the Garn-St Germain Depository Institutions Act of 1982[4]) and explicitly providing for the purchase of net worth certificates by the FSLIC "for such form of consideration as the Corporation may determine," including "promissory notes," Congress deliberately followed the precedent established by the FSLIC of exchanging FSLIC notes for Income Capital Certificates. S. Rep. No. 97-536, 97th Cong., 2d Sess. 9-10.

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[1] Subsection (i) is currently codified at 12 U.S.C. § 1725(i). Citations in the notes that follow are to the current version of the United States Code.

[2] 12 U.S.C. § 1728(b).

[3] 12 U.S.C. § 1729(f).

The Garn-St Germain Act further amended the basic language of section 406(f) by providing that FSLIC could make loans, contributions, and guarantees; purchase assets; and assume liabilities of failing institutions "upon such terms and conditions as the Corporation may prescribe".

In sum, section 406(f) by its own terms provides clear implicit independent authority to the FSLIC to issue notes for assistance purposes; and in addition, section 402(d) provides explicit authority to the FSLIC to issue notes, which explicit authority may be exercised in conjunction with the authority of section 406(f).

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[4] Pub. L. No. 97-320, 96 Stat. 1469 (1982).

Chairman CHILES. As you know, I submitted certain questions to you in writing, and in your answers, you said that we have a $45 to $50 billion problem, but $20 billion has already been committed, so that we are looking at $30 billion.

How does that number compare with your previous estimate of the $30.9 billion in July and the $22.7 billion in May?

Mr. WALL. The estimate in terms of the total, the $45 to $50 billion, is on the same basket of institutions, if you please, that we are trying to resolve with the addition of some GAAP-insolvent institutions. So that the net is that we have a few more institutions currently GAAP-insolvent. Here is a spread sheet of that for the committee.

You will see that we have, as we have indicated, dealt within this calendar year 122 institutions. Those 122 institutions have reduced what was 511 at the turn of the year, have reduced it by about 100 institutions.

Chairman CHILES. Well, is not adding the $20 billion that you say that you have already spent kind of like shutting the barn door after the horse is gone? Why was not that amount included in your previous estimates?

Mr. WALL. It was included in our previous estimates, Senator. It is a difficult situation because we are not only dealing with a problem that is changing, the size——

Chairman CHILES. Well, in your estimate of $30.9 billion in July, did you include in that the money that you had already committed?

Mr. WALL. We distinguished between the institutions—the resources we had committed prior to January 1. What we did then in July before the House and in May before the Senate Banking Committee, was to start at January 1. We are continuing to use that as our base of reference. So everything before January 1 had been discounted from the resources then and continues to be.

Today, when we say we are discounting the $20 billion, that is what we have done since the first of January of this year. If we had come up today and said the size of the problem is $25 billion, people would have thrown things at us. The point is that is what remains, but we are adding the $20 billion to it to remind you and to point out to you that is what we have done since January 1st, so as to keep it on that same starting point.

Chairman CHILES. Well, I thought the numbers that you used, the $30.9 billion and the $22 billion from July and May, were both based on GAO estimates.

Mr. WALL. We and GAO made the estimate that was the 22.7. We then provided our own update to the $30.9 billion. In both cases, Senator, we went back to January 1, 1988, as our base of reference. So in all of these estimates, we are saying all the institutions GAAP-insolvent, then and since, are being costed in the numbers we have used in those three—three, not five—estimates that we have made.

Chairman CHILES. Well, is it true, then, that you have effectively doubled your estimate of the present value of your prospective losses since the first of the year?

Mr. WALL. It is.

Chairman CHILES. How are we going to pay for that?

Mr. WALL. What it requires in terms of the existing authority that we have—and that is all that we can call on and therefore all that we can quantify—is the extension of the special assessment for 30 years. That is existing law. That is all we have the authority to utilize.

Chairman CHILES. Tell us what that means.

Mr. WALL. That means, in a sense, going back to what I said initially as far as deposit insurance having been under-priced all of these years. It might be that Congress will be or that we would be in the position of imposing a more appropriate level of premium on our industry. However, the Congress has to keep in mind that that would be then an uneven or unequal burden for the thrift industry to carry vis-a-vis the banking sector.

Chairman CHILES. So that is a tripling of the length of time for the special assistance.

Mr. WALL. For the special assessment, yes.

Chairman CHILES. Special assessment.

Mr. WALL. Yes; in order to carry the additional $20 billion estimated costs over the last estimate, which was in July.

Chairman CHILES. Well, I know the problem is complex, but we cannot seem to settle for 3 months on one estimate. So I am confused about the extent of the problem, not only on the cost side. It seems like we also cannot settle on the number of institutions that are affected. It seems like I remember a number of around 500 at the beginning of the year. You say you have resolved 100 cases this year.

Mr. WALL. One hundred twenty-two.

Chairman CHILES. One hundred twenty-two. Well, does this mean that we only have 400 to go, or there are more waiting in the wings?

Mr. WALL. That means that currently we have approximately 400 to go if all of the GAAP-insolvent institutions require assistance. We have done an assessment of what kind of recovery rate has there been over the last 10 years by GAAP-insolvent institutions not needing our financial assistance to gain solvency. And the success factor, self-recapitalization, if you please, because no assistance has been provided from FSLIC, is over 30 percent. So 30 percent of the GAAP-insolvent institutions in that time frame have gone back to GAAP solvency.

To project that all of the GAAP-insolvent institutions would require cash assistance is to deny the history of the last 10 years.

Chairman CHILES. Well, are you saying now that we have less than 400, then?

Mr. WALL. I am sorry?

Chairman CHILES. Do we have, then, less than 400 that are waiting in the wings? Are you saying that number has come down?

Mr. WALL. That is likely result if our 10-year past history is indicative. But we are not counting on that. Again, we and GAO, to start from a common point of reference, made two assumptions: One, we will start from January 1, 1988, and continue to use that as the base of reference; and two, we will use all GAAP-insolvent institutions, even though we had the intuition and since have done the assessment, that says not all GAAP-insolvent institutions require assistance. As I have noted, 30 percent of them have regained solvency without financial assistance in the last 10 years.

Chairman **Chiles**. Mr. Chairman, I know your staff has been working overtime responding to our requests for information, and I appreciate the effort. You have put together a very good response to our questions. Right now, I want to hear about the results of your crack staff's efforts. Let's talk about contingent liability.

Would you please step me through what the total is for the outstanding contingent liability of FSLIC, first on a cash basis, then on a net present value basis? I would like to know the specific totals in each category, such as promissory notes, yield maintenance agreements, capital loss coverage.

I want to ask one question. And then I will yield, and then Senator Riegle will get a chance to cross-examine.

Mr. Chairman, you in your oral statement said that now the Administration has clearly said the FSLIC notes are entitled to full faith and credit of the United States Government.

And that's a good statement to have out there. That perhaps clears up some of the problems that people have. But now I think that we're seeing that; then we can truly see that this really is not sort of off-budget borrowing any more. This is part of the deficit of the United States, is it not?

Mr. **Wall**. That is my understanding of the effect, as far as the consolidated budget is concerned. FSLIC notes are booked in their entirety.

Chairman **Chiles**. So we're really talking about monies that should be considered a part of the deficit?

Mr. **Wall**. They are considered as part of the deficit in the calculation. That is why, as I said earlier, if the cost of case resolution goes up for us on the one hand because the tax provisions are not extended, but on the other hand the U.S. Treasury loses tax dollars, in a lesser amount, because the tax provisions are extended, it is, in fact, a benefit to the consolidated budget to extend those tax provisions.

It sounds perverse, but I'm not defending Federal Government accounting. I am the last one to do that.

Chairman **Chiles**. Senator Domenici.

Senator **Domenici**. Mr. Chairman, let me just say to you that when I was alluding in my opening remarks to the short notice, I was counting myself in because I have a conflict. I just want the record to reflect that the National Economic Commission, which we are all beginning to hear a little bit about, is having a full public meeting starting at 11 o'clock.

Chairman **Chiles**. Are you going to make some startling statement today?

Senator **Domenici**. I am going to just make sure that everybody gets the fact. I have to go, and I will be late. But I want to get my questions out. And I did want to make sure that our side will be here.

I have assured myself that some Republican Senators will be here, even if we stay another hour or whatever.

Having said that, let me first say to you, Mr. Wall, and to members of your Board, I have not had a chance to review in depth the

15 questions submitted to you on or about September 30th, by the majority. But I have looked at some, and I want to say thank you.

They are very difficult, very complex. Again, without being an expert, just a cursory review would seem to me to indicate you have tried, in a very short timeframe, to diligently answer some very complex and difficult questions.

I, for one, thank you for it. I think it's very helpful.

Mr. **WALL**. I might add to that, of course, as that we are just at the end of the fiscal year, as well, which makes it somewhat more complicated.

Senator **DOMENICI**. Let me see if I can ask just a few questions up front that permit me to understand this situation.

FSLIC is one of the Federal Government's banking—in the generic sense—depositors' insurance programs; is that correct?

Mr. **WALL**. Yes.

Senator **DOMENICI**. The national banks have one, is that right?

Mr. **WALL**. All banks, yes.

Senator **DOMENICI**. And this one, the one that's before us, includes within the coverage State-chartered banks, State-chartered S&Ls, is that not correct?

Mr. **WALL**. Yes.

Senator **DOMENICI**. And is it not correct that State-chartered S&Ls sometimes have a broader authority than Federally chartered S&Ls?

Mr. **WALL**. In most cases, that is probably accurate. There are some States where they basically have the same as Federally chartered institutions.

Senator **DOMENICI**. Now, I do not want to pass judgment on having a different set of charter responsibilities and obligations from Federally chartered institutions, because maybe we're not right in terms of risk; maybe some States are better informed on that. But is it fair to say that a substantial portion of the rather extraordinary exposure of late is because State-chartered institutions—in some of the oil patch States and others—had a broader opportunity to participate in the marketplace, thus incurring more risks; and indeed, we had some bankruptcies resulting from that? Is that a fair statement?

Mr. **WALL**. Yes.

Senator **DOMENICI**. The lead State, whether we like it or not, in that respect, is Texas; is that correct?

Mr. **WALL**. Yes.

Senator **DOMENICI**. Now, Mr. Wall, even though this is the Banking Committee's jurisdiction—we seem to be overlapping here—let me ask you about the proposition that I have just established with you. Are you recommending that that be changed, so that there is at least a minimum homogeneity of basic charter responsibilities for State and Federal institutions if you are going to insure them under the umbrella of FSLIC?

Mr. **WALL**. Senator, that's a very difficult question to answer. The Congress has struggled with the question of States' rights for decades. And for us to interject ourselves into the middle of that, that's treacherous territory.

Senator **DOMENICI**. All right.

Mr. **Wall**. Suffice it to say that this agency has taken actions to in some cases to restrict what State-chartered institutions may do, by regulation, and in some cases, in fact, by contract, as we are providing contracts in the assistance of failed institutions.

Senator **Domenici**. So you have not yet sorted out what your recommendation is on that score; is that what you are telling me?

Mr. **Wall**. Well, what I am saying is, we are acting. We are already putting some restrictions on it. And beyond that, it is I think a question Congress is going to have to struggle with.

Senator **Domenici**. All right. These are very elementary questions, and I understand it, but I think it's important for me to at least get on the record. Let's say that an S&L within your jurisdiction goes bankrupt, and your board exercises its obligation, responsibility to the depositors, which is what we guarantee. If you incur some financial responsibility in that transaction of assurance, where does the money come from historically?

Is it correct that the institution at large is assessed a small stipend that goes into a pool, and you use that money to pay an obligation? Is that how it is done essentially?

Mr. **Wall**. That is correct. It has been exclusively funded from the proceeds of insurance premiums.

Senator **Domenici**. Have we used taxpayers' dollars in the past for that insurance responsibility?

Mr. **Wall**. No.

Senator **Domenici**. Are you telling this committee, based on what you know now—and I assume you have had time to really get into the FSLIC obligations—are you telling us that we are going to have to use taxpayer dollars to pay what I have just described? Now we have a lot of obligations, we have accumulated them, you have put together packages, you have issued notes, you have issued guarantee agreements, you are collecting assessments from the industry.

Can you tell us whether we are going to have to have taxpayer dollars or not?

Mr. **Wall**. We are saying that under the law as it exists, which does not give us the ability to impose any obligation on the taxpayers, under the laws as they exist there are sufficient resources that we can access.

Again, this statement presumes that we extend the special assessment over a very extended period of time. The Congress needs to deal with the issue.

Senator **Domenici**. But why do you call it a special assessment?

Mr. **Wall**. That is what the law provides. There are two levels of premium assessments that can be made. The regular premium has been the one-twelfth of 1 percent that goes back to the 1930s, and the special assessment authority that we have is an additional one-eighth of 1 percent.

Senator **Domenici**. So it is special in the sense that it is more of an assessment than the normal one that existed for most of history, but it has been on for how long?

Mr. **Wall**. Since early 1985.

Senator **Domenici**. And you are saying if that continued for 30 years, that seems to you to be enough to take care of the responsibilities as you know them?

Mr. **Wall**. Yes; we have present-valued the returns from that over 30 years. And we believe, fact of the matter, as we discussed with the chairman a few minutes ago, that there are present-value resources to match the present-value estimate of the cost.

Senator **Domenici**. So everyone will understand, let me quickly say, there is a contention by the industry that you regulate and that you assess that they have to compete with others who are in the banking business. And this assessment, if it is too high, puts them in a disadvantageous position.

Mr. **Wall**. One additional point I was going to make: In May, before the Senate Banking Committee, in July, before the House Banking Committee, we indicated and reminded those committees that they already have a dual capital demand on the industry.

One, it shouldered the burden of the insurance costs, which is to say, our costs. And the second one is, they have an assignment in law, and it is now in regulation, to increase the capital on an institution-by-institution basis.

Both tasks require capital. And both, if they are to be continued by the Congress, are at a very dear cost to the industry.

And the question has to be confronted. And it is clearly on the agenda for next year, the question of what, if anything different, ought to be done in terms of providing resources to FSLIC.

Senator **Domenici**. Let me ask just two more and I will yield.

FSLIC has entered into agreements, the promissory notes and the maintenance agreements, and I understand these are responsibilities of a multi-year nature that you enter into when you take over or merge or liquidate a bankrupt institution.

Some say that you have entered into more of these than you are going to be able to repay. Do you agree with that statement?

Mr. **Wall**. No.

Senator **Domenici**. What options would you have to resolve problem cases in the absence of these arrangements or other Congressional action?

Mr. **Wall**. As we see it, virtually none.

Senator **Domenici**. What did you tell us the current total estimate is of the obligations of FSLIC, resulting from the exercise of their responsibility to protect depositors? Did you say $47 billion? $49 billion? What is the number?

Mr. **Wall**. $45 to $50 billion.

Senator **Domenici**. All right, $45 to $50 billion. Now, so I will understand, if you had all those arrangements completed, and you had the obligations all in writing, are those due in a week? In a month? In 3 years or in 10 years?

Mr. **Wall**. Currently the contracts run for 10 years with our option to renew.

Senator **Domenici**. Right. So if it was $50 billion, just simple arithmetic, you'd be talking about maybe $5 billion a year having to run through to——

Mr. **Wall**. No; the $50 billion is a present-value calculation.

Senator **Domenici**. What does that mean?

Mr. **Wall**. It means that it would be more per year over time than the net present value cost at $50 billion.

Senator **Domenici**. All right. Nonetheless, it is about how much per year, just for the record? What would the outgo be per year?

See, what I am fearful of, people hear $50 billion and they think we owe that next week.

Mr. WALL. Your point is well taken, and it would be on a curve. I am not the economist, the mathematician that it takes to tell you the answer to that. The observation is perhaps about $7–8 billion a year.

Senator DOMENICI. How much does the special assessment yield right now, all by itself without any other assets?

Mr. WALL. $1.2 billion, roughly. And remember, that also is net of the return of the secondary reserve that was mandated by the legislation last year.

We have the ability to borrow $10.825 billion, but we have to give $8.25 back to the industry.

Senator DOMENICI. My last question: Why is full faith and credit of the promissory note significant?

Mr. WALL. Well, to have it more explicit would apparently give more comfort to the AICPA, which of course puts the stamp of approval of the accounting profession on the financial statements of a publicly-reporting or publicly-trading company.

And, in that sense, unlike banks, our industry's institutions may be owned by basically any kind of an owner, not as in the case of a bank, which may only be owned by a bank-holding company or another bank.

Senator DOMENICI. So let me again—I apologize—but if an institution that you have just caused to be put together or merged holds a note from you, it is an asset, normally.

And if it is audited, what you are saying is that for the professional accountants to treat it as a valid 100 percent asset, it needs the full faith and credit of the Federal Government, otherwise it is just your Board's note; is that it?

Mr. WALL. That is what the accounting profession is saying. As I say, the Treasury Department, OMB, we, the GAO, all agree that that is not the case.

Senator DOMENICI. I understand. But my question is, why is it important? Have I stated why it is important so that that issue is determined, and it is indeed an asset, a full asset with full value?

Mr. WALL. Yes.

Mr. WHITE. Senator, I would like to expand on what Chairman Wall just said.

I am Lawrence White, one of the three board members at the Bank Board. What Chairman Wall has said is correct. But I think further expansion is important.

I would emphasize that because of this hesitation on the part of some accountants, some potential acquirers are not coming forward. With the full faith and credit satisfying the accountants, those potential acquirers would come forward. And in some instances, we would be able to do what many of our critics would consider better deals with what they might consider better acquirers and with more capital being put up at lower cost to the FSLIC.

So this would be, I "win-win" for everyone because it lowers our cost, it allows us to do our job better, and allows us to stop the hemorrhaging in a yet more cost-effective manner.

Chairman CHILES. Well, there is just one more piece to this puzzle that I think we ought to make sure that we have laid out clearly.

I personally think that Congress ought to put the full faith and credit behind FSLIC notes. That is really what should be done, what we should have done to start with.

But now we have had the administration put the full faith and credit behind the notes. And we are trying to clarify in this hearing, that everybody can believe the full faith and credit does exist. I think we need to look and see what that pledge does, or what we have created here.

We have created an off-budget borrowing process that in effect creates a siphon into the Federal Treasury. And we have your word, Mr. Wall, that you are not going to issue more of these notes than you are able to repay.

Now that is a heck of a way to budget. That is a heck of a way to appropriate. And we do not do that in many other areas and I do not think we should be doing it in this area. Because with the other assistance agreements, and all of these other FSLIC financing techniques that we are trying to get the solid numbers for, to find out how much is being spent we are talking about something that does not go through the Appropriations Committee, does not go through a process of saying, wait a minute, you have only got so many dollars to spend.

Now, why is that important? Because we have got something called Gramm-Rudman-Hollings that triggers a sequester when you spend over a certain amount.

And then we could be squeezing out all kinds of other agencies of the Federal Government in other kinds of spending because we have got something here that depends on the Chairman's word.

Now the Chairman is a man of his word. But that is just not the way we ought to budget. And part of that is Congress' fault.

Mr. WALL. Mr. Chairman, the way you have just phrased it makes it sound as if the FSLIC is creating new liabilities, or creating new obligations.

Those obligations are already there. And just as soon as a savings and loan becomes insolvent, the FSLIC's obligation is there to the depositors. And Congress has put the full faith and credit——

Chairman CHILES. And one of the things we are trying to find out: How big is it? What is the extent of it?

And as we are issuing these notes, as we are making these agreements, as we are doing these things, what are we talking about? What is our exposure?

Mr. WALL. That is correct. But the liability is already there. And by issuing the note, by issuing the guarantee, you are simply transforming that liability, but the liability is already there.

Chairman CHILES. But there is all kinds of liability. There is all kinds of liabilities that people have, again, against the Federal Government. But we were trying to put a cap on what FSLIC can do.

And then FSLIC has to come back to the Congress and say, now wait a minute, there are some other liabilities out there. We have got liabilities of all kinds that the government has created.

But you still have to come back and get some money appropriated for them or they do not get paid. The government owes some people. But we always have owed some people.

And it is as though, I will owe you forever before I will beat you out of it. But you have got to get some kind of appropriation on it. FSLIC should not be different in that regard.

Senator **Domenici**. Mr. Chairman, I might state, these notes are on-budget now.

Mr. **Wall**. That was the point, the clarification I was going to make. FICO borrowing is not on budget except as an income item—FSLIC notes are, in their entirety.

Senator **Domenici**. And the guarantee agreements are treated like any other guarantee. We do not have a cap on them.

Chairman **Chiles**. Well, the question is, they are on budget, but are they controlled? Do we have a control?

Senator Riegle.

Senator **Riegle**. Mr. Chairman, I think this is an extremely important hearing. And I think the line of questioning that you have been advancing, and the comments made by Senator Domenici and others, is very important in getting to the bottom of the financial exposure and risk that faces the government and faces the taxpayers.

I have no personal quarrel with Mr. Wall and he knows that. This is a question of trying to figure out exactly where we are. And I think we have a very confused picture.

We have got to eliminate as much confusion as we can. A whole series of deals has been done. Quite frankly, we have gotten very little detail on the deals.

You mentioned three particular packages where there has been specific detail provided. But when I raised the issue earlier of FCA—Financial Corporation of America, a very big rescue in California, the biggest one in the savings and loan system—you were very quick to say: that is not a finished deal.

Well, it certainly has been widely publicized. The papers may not have been finally signed. But you have frankly no excuse in my view not to provide every last scrap of information about that deal and every other deal in finite respect and detail to this committee and to the Banking Committee, and you ought to have it up here today. Not tomorrow, or in 2 weeks, or 2 months, or some other time. You ought to have it up here now.

If these deals can stand the light of day, in having all their facts known and out on the table, fine. But when we don't have that information, there is no way that we can anticipate and plan properly what the financial exposure is to this government.

And there is great doubt about the accuracy of the estimates. You have already changed your estimates, as you know, five times this year.

Mr. **Wall**. Three. I want to make that point. Three.

Senator **Riegle**. Only three times this year?

Mr. **Wall**. In 15 months.

Senator **Riegle**. Well, my concern is, whether it is three or five or whatever the number is——

Mr. **Wall**. Senator, with all due respect, the information that you had was correct in the case of one number; that is, all that you had was correct.

Senator **Riegle**. Well, I have to tell you, that I cannot find an outside expert, at the FDIC, in the financial community, that agrees with your numbers. You have always been behind.

All of the other outside experts, if you will, think that you folks are low-balling the estimates.

Mr. **Wall**. None of them had our numbers.

Senator **Riegle**. Well, I understand that. But the record will show that you have consistently been behind. You have consistently underestimated the exposure You are in here jacking it up today.

I fully expect you will be back again in the future with still a higher number. I hope I am wrong, but that has been the record so far. I think you will be back with a higher number later.

But all of this is just words until we get documents in front of us. And Mr. Chairman, I think it is essential that this committee, which has expertise, put together a small accounting team.

I think it ought to be one where the professionals on both sides of the committee sit down together with Mr. Wall or whomever he wants to designate, and go through these deals one by one, starting with the big ones—and FCA ought to be at the top of the list, because it is the largest—and find out what these exposures are.

As I can understand the FCA package—it is very confusing to follow—in addition to $2 billion in up front assistance, there is apparently a $500 million a year secondary package of assistance that goes on out into the future, I am not sure how far.

That is my understanding. That may not be right. I do not want to guess about it, and this committee should not guess about it.

If they cannot lay these facts out for us in a forum where we have financial experts, we cannot do any planning, we cannot do any anticipating.

And I can tell you this, the next President, whether it is Bush or Dukakis, is going to get hit right between the eyes with this savings and loan problem. This is going to be the first problem that they have to deal with because of the enormous size of it.

In a sense, it has been down-played over the recent months, but the fact of the matter is that the next Administration is going to have to deal with it, and so is the next Congress.

And so I would hope that we could form that kind of accounting team, ask Mr. Wall to come up with his people, let us go through these deals. Even if you say they are not completed, for all practical purposes, they are essentially completed. We can certainly put some kind of parameters on what the exposures are.

Let us find out how much we are signed up for. For all these deals that have come through, recently—I know that there was a whole burst in the last month—no one knows, insofar as I am able to judge—how much it is going to cost us.

I do not think you are in a position to say what the cost is today. But even if you think you know, that is not sufficient. We need to know, because we need to plan and anticipate.

So Mr. Chairman, I would hope that we can initiate that kind of process. If we do not do it, we have not done our job. It is just as simple as that.

We can ask a thousand questions here today and it will not mean anything, because we are not going to know what the future dollar impact is, based on deals that have already been negotiated.

So I would like to leave it at that and let the next Senators ask their questions.

Mr. **Wall**. Let me say, firstly, Senator Riegle, that we cannot respond to something that has not been asked.

We have been asked for three sets of documents; we have provided them.

We were asked for FCA; that is not a completed set of documents. We do not believe it is appropriate to provide it.

Senator **Riegle**. Now, wait a minute. Why is it not appropriate to provide it? It has been in the newspaper.

Mr. **Wall**. The deal has not been in the newspaper. The contract has not been in the newspaper.

Senator **Riegle**. So you cannot talk to us about that?

Mr. **Wall**. We have briefed the staff of the Senate Banking Committee, and the House Banking Committee, at their request on FCA loan. If they want us to come back on FCA, we will do it again. But we will not provide the document——

Senator **Riegle**. With all due respect, I think that is a slippery answer. I think you ought to provide all the facts on that deal, and every other deal that on which you are about to close.

Mr. **Wall**. Senator, I do not believe it is appropriate, with all due respect, for us to provide documentation on deals that are not closed.

Anyone on the other side of the table finds it difficult enough to negotiate with us, much less to have 535 Members of Congress between us and them. You have the responsibility——

Senator **Riegle**. I think you are cutting the ground right out from under your own responsibility. When you are cutting a deal this big and as controversial as this whole situation is, and you tell us, sorry, we cannot tell you what the facts are, I do not think that is a sufficient answer.

You are obligating this government, and the taxpayers of this country, to shell out who knows how much in the future. And if you are going to do that, I think you have an obligation to tell us what the facts are.

Senator **Domenici**. Mr. Chairman.

Chairman **Chiles**. Senator.

Senator **Domenici**. I have to leave, as I told you. And I would just like to say, speaking only for myself, and not for my side, but I do not agree at all.

I do not see what in the world's business it is of Congress to get in the middle of a complicated banking transaction.

We should have all the information on completed transactions. If we do not think this board is doing its job, fire them. But we cannot possibly expect people to enter into business transactions in an arena of insolvency with good Senators—and I submit we are all wonderful—sitting around here asking them to put everything on the table.

They will fly from these transactions, and there will be no transactions.

Now, on the other hand, if they are completed transactions, or if you want to set guidelines for what they ought to be doing, fine.

Imagine us asking the Federal Reserve Board to come up here before they have completed a transaction and get our tacit approval. Who is going to put together any kind of transaction with us sitting around.

So as to facts, I agree. But contracts before they are completed, I believe is their business or it will be no one's business.

Mr. WALL. If I might, Mr. Chairman, there are two points. I know what the situation is like with Senators coming and going and do want to respond to two points that Senator Riegle has raised because he is incorrect, and I want to correct him.

You raised the question of the Oklahoma case resolution on whether or not we had an interest in that institution. Senator, we own those six institutions. We did not sell them. We did not tell anyone we sold them.

Senator RIEGLE. That was not my question. You made the point earlier that you had provided information on three Oklahoma cases. That to me is incidental.

What I am saying is that I think——

Mr. WALL. No, no, Senator, I am talking about your opening comments, when you were critical of the amount of capital versus how much of an ownership position we have taken.

We have not provided Oklahoma cases. Nobody has asked.

Senator RIEGLE. I am not making that point with respect to any specific case. I am talking about all cases together.

Mr. WALL. You did in the case of Oklahoma.

Senator RIEGLE. Well, you know, we are having a very difficult time getting financial information that is accurate from you. That is the problem.

Mr. WALL. If you ask a question, you will get an answer.

Senator RIEGLE. Well, I have asked for a summary, item by item, of each completed deal.

Mr. WALL. You are asking here. You have not asked for it.

Senator RIEGLE. Yes; I am asking here. That is exactly right. And what I would like to hear you say is, yes, we are prepared to provide all that detail. We will be up here tomorrow or the next day.

Mr. WALL. I said it in every case except uncompleted transactions.

Senator RIEGLE. All right, now, let us just take the uncompleted transactions. Why has the FCA deal been announced in the newspapers? It has all been announced publicly. We have all been reading about it.

You are saying it is not a completed deal?

Mr. WALL. That is what I am saying.

Senator RIEGLE. Then there is no understanding? No agreement? We have not locked the thing in?

Mr. WALL. We are waiting for two reviews and approvals that have to be made by other than us.

Senator RIEGLE. And you cannot give us the details until that is done?

Mr. WALL. I do not believe it is appropriate to discuss the contents of a private sector contract with an independent agency of the government.

Chairman CHILES. Well, let me just say, I think we need to allow other people to have an opportunity to question. And I just want to say, my good friend Senator Domenici had to say——

Mr. MARTIN. May I correct something the Senator said? I believe he said that in the case of FCA that——

Chairman CHILES. If you are going to start correcting Senators, we will never have enough time. [Laughter.]

Mr. MARTIN. You mentioned that we are putting up $2 billion cash up front, and then another $500 million in the first year.

Senator RIEGLE. I am asking that question. I am not certain.

Mr. MARTIN. That is not true. OK, the present value cost of the FCA situation is a total of $2 billion.

Senator RIEGLE. Let me just ask you this. I have a press release here from the Federal Home Loan Bank Board that lays out the details of the FCA arrangement. You put this out publicly, but yet we are being told now that you will not sit down with us and go over the details.

I do not understand——

Mr. WALL. Senator, you are not listening. In all due respect, I have said, we have already briefed the committee staff of the Senate Banking Committee. It was an extended meeting. I am told it was an excellent review, that excellent questions were asked and answers were provided. If you want another meeting, we will do it.

Senator RIEGLE. I have to tell you, you are incorrectly informed about that. And I am asking you from the point of view of this committee, are you prepared to go into the details of where you stand today on this?

Mr. WALL. Absolutely. Provide the documents, no.

Chairman CHILES. OK, we have got to move on now.

Senator Nickles.

Senator NICKLES. Mr. Chairman, I might ask you. We have another panel. We also have the Majority Leader's luncheon today. Is it your intention to have the second panel afterwards, or during it?

Chairman CHILES. We are going to keep plowing for right now.

Senator NICKLES. Thank you, Mr. Chairman.

Mr. Wall, I will tell you and tell the committee members, that I have asked numerous times for your office to give us some financial information, and you have been forthcoming, and I appreciate that.

A couple of quick questions. One, you were talking about the loans, and you mentioned, I think I heard a couple of times, that loans would not be made in greater amounts than what you have the present authority for.

Does that include, I do not know what your budget authority is for the loans, but also, the loans would not exceed your cash flow capability?

Mr. WALL. That is right, that is correct.

Senator NICKLES. As now authorized?

Mr. WALL. Yes.

Senator Nickles. And are the loans treated—if a loan is made, is that treated as an outlay in the year it is made?

Mr. Wall. In the case of a FSLIC note, yes. It is booked in its entirety, as an obligation against consolidated budget.

Senator Nickles. And so the entire loan is booked as an outlay; not just the cash amount that is extended?

Mr. Wall. Yes; that is correct.

Senator Nickles. Also it mentioned the special assessment. And you mentioned that if the special assessment was extended to 30 years, that your cash flow projections would show that you could handle the current problem.

A special assessment is, what, one-eighth of 1 percent?

Mr. Wall. Yes.

Senator Nickles. And the regular assessment is one-twelfth?

Mr. Wall. Correct.

Senator Nickles. The two of those, am I correct, would be about, what, 20-point? Maybe one-fifth?

Mr. Wall. There are 5-24ths. About——

Mr. White. 20.83 cents per $100 insured deposit.

Senator Nickles. 20-point?

Mr. White. 20.83 cents per $100 of insured deposit.

Senator Nickles. 20.8?

Mr. White. 20.83 cents, 3-3-3-3-3.

Senator Nickles. About?

Mr. White. About 21 cents.

Senator Nickles. About 21 cents, or about one-fifth of 1 percent on the assessment.

Is it contemplated that one of the solutions—and I know in one of your detailed answers you talked about a possible solution—that that assessment amount be increased percentagewise? So we would not be paying this off over a 30-year period of time?

Mr. Wall. I am not sure what you are referencing, Senator. What has been talked about with regard to the premiums is that there might be a variable rate premium structure put into place where higher premiums would be levied against those who are running what is perceived to be risky or less well capitalized institutions, and lower premiums against better capitalized risks.

Senator Nickles. Would you favor a risk-related premium?

Mr. Wall. We have been looking at the concept. And Board Member White has been very much an advocate. It is the general counsel's view that we may not have the legal authority to do it; that we should have explicit legal authority from the Congress in order to utilize a risk-based premium.

Senator Nickles. Banks do not have risk-related premiums, do they?

Mr. Wall. No; what we do have the authority for, and what we are also looking into very seriously—and have taken significant steps in the development of—is a risk-based capital approach, where we would provide for different levels of capital that would be related to the risky or how well capitalized an institution is.

In that case, the bank side is also coming up with that kind of approach. They have the authority as well. Internationally, that is occurring in banking.

Mr. **White**. Excuse me, we already have a risk-based capital requirement. And what we are looking into at would be a major improvement that would be in basic harmony, as Chairman Wall has said, with the kind of approach that the commercial banks seem to be moving toward.

Senator **Nickles**. What is the total amount of income that you receive from your combined regular assessment and special assessment?

Mr. **Wall**. Right now, it is about $2 billion a year.

Senator **Nickles**. $2 billion a year? The cost that you mentioned, you worked out 122 institutions out of the 511, at a cost of what, $22 billion?

Mr. **Wall**. $20 billion.

Senator **Nickles**. $20 billion. And an estimated cost of another $25 to $30 billion to solve the balance of those problems, 511. So you have tackled the most expensive, or are in the process of tackling the biggest problems and the most expensive problems.

I also heard you say that you are hopeful that many of those 511 will be able to work themselves out, the problem with capital increases from the private sector, is that correct?

Mr. **Wall**. A significant number of institutions have historically, been able to do it, on the order of 30 percent.

Senator **Nickles**. A question concerning the—you mentioned the FSLIC's obligations are to the depositors. Most of the solutions that I have seen lately with the mergers, et cetera, you are guaranteeing all deposits, not just up to the $100,000, is that correct, or not?

Mr. **Wall**. No; only in one institution have we announced that, and that is the case of American Savings, FCA American, in Stockton, California.

And we did that only on the heels of FDIC making a similar announcement in the case of a very large troubled institution in Texas.

We felt that because of the size of that institution, and because we had not yet reached closure on the negotiations that were then underway, it was appropriate for us to make that announcement.

We have made that announcement, and are providing that kind of coverage.

What that really says, in an operational sense, is that even at that point we had determined we would not, in all likelihood, liquidate that institution since we are clearly on the track of selling it to a new acquirer.

That is really what you say when you provide anything more than the amount of $100,000 per insured account—that you will not liquidate.

Senator **Nickles**. In the case of the smaller institutions, the Oklahoma institutions, you are only guaranteeing up to $100,000? Not liquidating those?

Mr. **Wall**. If we liquidate an institution, the insured amount is the ceiling. If we do not liquidate an institution, typically we transfer all deposits. So it is a matter of whether the cost-benefit is greater to us because we have a franchise to sell or someone wants to merge with it or acquire it outright. It is a better deal for us to give all deposits, if they want them, than for us to liquidate the institution where then we would just fulfill the $100,000 ceiling.

Senator **Nickles**. And your mergers and acquisitions are cheaper than liquidation?

Mr. **Wall**. Oh, yes; we only undertake them if they are cheaper. Under the law, we have to do that. It is not something that I am pleased to reference you to, but in one day in your home State, we took three different kinds of action: one liquidation, one transfer of insured accounts, and one where we actually took the whole institution and we now own it.

So there are different kinds and different steps that we take. And as I say, in one day in your State, by coincidence, we took three different ones.

Mr. **Martin**. Senator, if I can add to that, as to why it is important to do these mergers and these work-out deals. If we were to take the 340 RAP-insolvent institutions, and pay off today the insured deposits, we would need $109 billion.

Senator **Sasser**. $109 billion?

Mr. **Martin**. That is the amount of the insured deposits.

Chairman **Chiles**. $109 billion. All right, Senator Sasser.

Senator **Sasser**. Thank you very much, Mr. Chairman. I want to thank you for calling these hearings today.

And what I think we are seeing here is, we are reaping the whirlwind of the deregulation and laissez-faire policies of this Administration in the savings and loan industry over the past 7 or 8 years.

And what we are learning is that deregulation requires more supervision and not less. And that is what we have had along with the deregulation, is less supervision on the part of the Federal Home Loan Bank Board.

And when you separate out the fast-buck operators and the crooks from what has happened in the savings and loan industry, you still have left those who got into savings and loan institutions—builders, developers, et cetera—who used Federally insured deposits to leverage their own deals, and we are reaping the whirlwind of that.

Now, Mr. Wall, I think, has tried to bring a new discipline to the Federal Home Loan Bank Board. And I think he is doing the best that he can under very adverse circumstances.

But I share with my colleagues the concern that the American taxpayer may be incurring tens of billions of dollars worth of liability here without the approval of the Congress; without the oversight of the Congress. And we are going to be presented with this due bill in the not too distant future, I fear.

And then people are going to ask, where did all the money go? Where did the $50 billion go? And I am not sure that we can give them an accurate answer.

Now, Mr. Wall, there is a lot of rumbling about different accounting standards for projected Federal Savings and Loan Insurance Corporation revenues, and projected cost.

Now, you are giving a revenue estimate of $42 billion as I understand it over the next 10 years. That is the accumulated income of FSLIC over 10 years. You are estimating a payout, as I understand it, of somewhere between $42 billion, by your estimate, and a liability or payout by other estimates of $60 billion.

And you are getting your $42 billion by using the present value for the cost of resolving the problem caseload over 5 years.

Now, as I read it, what we have got here, is the accumulated total income of FSLIC over 10 years. And we are laying that down against the present value of FSLIC's liability over 5 years.

And to get the accumulated value over 10 years, at the number you are using, that assumes that the special assessment against the thrift industry will stay in place for 10 years——

Mr. WALL. Senator, we indicate in our testimony——

Senator SASSER. Well, let me finish, and then you can correct me—you can correct me if I am wrong—and that the moratorium on thrifts exiting the FSLIC will remain in place for 10 years too.

Now are we comparing apples and oranges here when we are talking about revenues coming into FSLIC and our liabilities for payout?

Mr. WALL. Senator, I do not want to get too cute. But frankly, you have dealt with apples, oranges and bananas—the $42.5 billion estimate of resources that was announced in July, compared to an estimated cost on a present-value basis of $30.9 billion of case resolutions.

Senator SASSER. And that would have given you a surplus of $12 billion?

Mr. WALL. No; if you present-value the resources, we felt they were equal, that the $42.5 billion being present-valued was probably about $30.9 billion. Not all of it—some of it had been present-valued; not all of it.

And there we acknowledged that there was confusion on the part of the way it was presented. We are going to be even clearer. It will be more complicated, but we will be even clearer with the cash flow projection that we now are constructing to go with this testimony.

Obviously, we are only now, 5 days after the end of the fiscal year. But the $42.5 billion relate to the $30.9 billion. We are now dealing with the 30.9 being $45 to $50 billion, that being the present-value cost of the size of the problem. And with that we are extending the special assessment as much as 30 years, since it takes that in order to provide the resources for us, under existing law, to deal with that obligation.

Now, clearly, it is something that the Congress has before them. You have the expiration of the moratorium and the prohibition against switching from FSLIC to FDIC insurance coming before you on August 10th. So if not before, certainly then it will be an issue that will be very much before the Congress. Then the issue must be addressed. I have to respond to your question, to have full discussion. You were late in terms of the presentation I made at the outset with regard to the matter of this Administration being at fault.

There is plenty of fault to go around. For example, to start with, there was the interest rate deregulation that occurred in 1980, 2 years before—or a year, rather, before this Administration came into office.

When liability side was deregulated, on the asset side—only variable rate mortgages were given. State charters, State stock structure in Texas, were very liberal. With the deregulation of interest rates, institutions were able to utilize these powers.

There were not enough cops on the beat, State and Federal alike. The oil patch economy was such that, again, Texas with its liberal charter, Louisiana with its liberal charter, Oklahoma with a liberal charter to some extent, were too easy attractions.

Income tax changes that were made, not by this Administration alone, certainly, but with the support and approval of the Congress, took the heart out of the real estate syndication business, which very dramatically affected the real estate values in Texas.

And lastly, and certainly not leastly, there was the 19 months delay in passing the FSLIC recapitalization that was put on the table by this Administration.

I am not saying the Administration was not involved. But what I am saying is, there is plenty of blame to go around for all the various places: the agency, the Administration, the Congress, the industry, and the bad guys that we are sending to the slammer—there is plenty of blame to go around.

Chairman CHILES. Senator Danforth.

Senator DANFORTH. Mr. Chairman, my understanding is that if nothing is done, FSLIC does not have the resources to pay off the depositors in bankrupt savings and loans. Is that the long and the short of it?

Mr. WALL. No; we believe we have the resources if we are permitted to continue as we are.

And we would be even better prepared or better equipped if the full faith and credit question were taken out of the debate as far as the accounting profession is concerned.

Beyond that, if the Congress wants to direct us to do it in a different way, then they will have to give us some different tools.

Senator DANFORTH. Well, my understanding from your testimony is, the possibilities are either assessing the savings and loan to provide the resources for taking care of the depositors, or getting the money from somewhere else; is that it?

Mr. WALL. Well, under the current law, we have only the ability to assess the industry.

Senator DANFORTH. Yes; but we are here as policy-makers. And my view is really different from Senator Riegle's. I am not interested in all the details of each transaction. I am interested in what, if anything, Congress is supposed to do about this situation in the next year or so.

So as I understand the situation, the money is either going to come out of the savings and loans that are still in existence, the healthy savings and loans, or the money is going to come from some other source.

Mr. WALL. That is right.

Senator DANFORTH. Now, with respect to the assessment against the savings and loans, you think that the problem can be resolved if only we extend the duration of the special assessment. You do not think it would be necessary to increase the assessment that presently is in existence other than in time?

Mr. WALL. What we are saying is, with the authorities that exist, the only thing we can do——

Senator DANFORTH. I am not asking what you can do. I am just asking about the options that are available to all of us.

Mr. WALL. In terms of the options that Congress has available to them, I think the basic point is to look at deposit insurance in its entirety.

It has been underpriced historically. So maybe you start with the recognition of that fact. We are now levying a higher premium. Perhaps that should well have been the case on both sides, both the FDIC and us. And maybe the Congress needs to evaluate that for FDIC as well as for the FSLIC.

Senator DANFORTH. OK, could or should the problem be resolved by simply extending the special assessment? Or would it be necessary to increase the assessment?

Mr. WALL. Are you speaking from your perspective or from ours?

Senator DANFORTH. Well, just as a practical matter, can the problem be solved? Would the resources be there to solve the problem if we simply extended over time the special assessment without increasing the total amount that the S&Ls are assessed?

Mr. WALL. It is a matter of what other impact can we or you or the market have on the cost of funds for those institutions. If they have to pay a higher premium, a higher cost of doing business, they have to be able to offset it somewhere.

Are they able to lower their cost of funds some other way, pass that on to their depositors or their borrowers? If the industry is being looked to in a vacuum, the industry has to find a way to accommodate the pressure.

Senator DANFORTH. But I mean are you suggesting that you have to increase the existing pressure on the industry? Or that you just have to keep the same pressure going for 30 years instead of for a shorter period of time?

Mr. WALL. We are saying that to extend the special assessment—you characterize it as the "same pressure" for 30 years—would solve the problem as we see it.

Now, on the other hand, the industry would be in a competitive environment. And how do they compete with their competitors—that being other kinds of financial providers, not just commercial banks obviously, in this case.

Senator DANFORTH. And they feel that they would be severely disadvantaged. Do you agree with that?

Mr. WALL. I think it would be a severe disadvantage, and there would be a struggle. It would be difficult for the industry to shoulder the burden for a 30-year period.

Senator DANFORTH. Some people have suggested merging the FSLIC with the FDIC, is that not right?

Mr. WALL. Well, there are people who are suggesting it. I do not think they have looked very carefully at the economic status of those funds when they make that suggestion.

Senator DANFORTH. You do not suggest that?

Mr. WALL. No, I do not think it is an answer to anything.

Senator DANFORTH. Why?

Mr. WALL. Because I think we both, as deposit insurance entities, have different kinds of challenges, different kinds of problems.

There is a different degree of recognition of the problems as between one agency and the other. I think clearly there are questions and evaluations that the FDIC is making, and the Congress is going to have to make vis-a-vis FDIC.

I don't see the resources of FDIC, even if they could be made available to FSLIC, as being an answer in an economic sense, because then you simply have made both of the insurance situations worse.

Mr. WHITE. Senator, can I add something to what the Senator just said? In addition to the things that he just mentioned, there would also be the administrative cost confusion and time loss that would occur in any merger of the organizations.

And I would use as an analogy, the Bank Board's 1983 to change the headquarters of the ninth district from Little Rock to Dallas.

It looked like a good move at the time, because the Board thought they could attract more and better people to the Federal Home Loan Bank if it were located in Dallas rather than in Little Rock.

With 20-20 hindsight, it turns out that the timing was really bad because not too many people moved from Little Rock to Dallas. Consequently, the Dallas office had to spend a lot of time just gearing up, hiring examiners and supervisors, at what turned out to be a very crucial time—the beginning of deregulation—when new people were coming into the industry, and when some wild things were happening.

Senator DANFORTH. Can I just ask, I do not want to get into all the details, but just a general question: If we decided that for the healthy savings and loans to assume the full responsibility would be too disadvantageous to the savings and loans; and if we further decided that we did not want the taxpayers to assume this responsibility; what other alternative is there?

Mr. WALL. Well, we have indicated in response to the Chairman's ideas about seven different alternatives, none of which goes to the taxpayer.

The Federal Government could explicitly guarantee the borrowings that we make, and lower our cost of money immediately and very dramatically, as they did in the case of New York City and Chrysler. And that would be at no cost, because it is just a matter of our being recognized differently by the market because of the implied support.

There is the possibility of other kinds of user fees.

Senator DANFORTH. I did not realize that we are in the last few moments of a vote on the floor of the Senate.

Thank you very much.

Chairman CHILES. I was not sure whether the Senator realized that.

Mr. Chairman, we have had a vote, and that is why people have had to leave. I know Senator Kassebaum would like to ask a question.

One of the privileges of retiring is you do not have to make every vote.

Concerning my question about contingent liability, I want to make it clear that I appreciate your efforts, and certainly your staff's efforts, to answer that question.

There does seem to be some gaps that I would like to have filled, for example, the value of notes outstanding. What you have produced to me reflect a cash basis estimate. We like to know the net present value.

And when you talk about assistance agreements, you address the net present value for assets covered, and not the cash or net present value of cost to the FSUC.

I know these questions are difficult, and I am aware and appreciate your staff's efforts, many staying up late hours to try to reply to our complex questions.

We think you have done a good job in the time you have had. We would like to be able to send you additional questions, and I appreciate your statement that you would answer those questions.

Mr. WALL. I would reference you and the audience to our answer to question number seven with regard to the matter of notes. I think we have provided a very complete list of what the notes are and the term.

I do not think the present value assessment is an appropriate one to make. I could be wrong, but that just does not seem to me——

Chairman CHILES. And I think, again, some of the frustration of certain members on the panel, and I understand what you are saying with regard to the minute details of perhaps furnishing a document before a deal is totally closed, but when we do see a news release that you published, it comes out of your shop, and that news release, dated September 5, 1988, says the Robert M. Bass group is committed to investing $550 million to acquire American Savings & Loan Association. And it goes on to say that FSLIC will provide the Bass Group of Ft. Worth, Texas, an assistance package at a net cost of approximately $2 billion, including a FSLIC note of approximately $500 million. FSLIC will have a 30 percent ownership position in the institution. Final documentation of this agreement, which was reached over the holiday weekend, will come upon receipt of a favorable ruling from the Internal Revenue Service concerning the structuring of tax benefits; it would seem when that kind of detail is sort of furnished to the public and to the press, that our staff should be able to see these details as well and to find out, what all the costs are of all of the agreements.

I again don't know—maybe it is none of our business to look at documents; I do not care anything about that. But I think the necessity lies in costing it—and why is that important? Well, one reason it is important is for trying to determine what our position under sequester is going to be; what our exposure is going to be.

If we are talking about an exposure—and I do not know what it is on this; I will take a figure out of the air, because I am not aware of the details, but say a $2 or $3 billion exposure on one of these, and that determines—part of the sequester this year? If it is not, if it gets by a period of time in which it is scored the next year, then that is going to add to what the problem is going to be next year.

So from the Budget Committee standpoint, those numbers are very important to us. And the sooner we know them, the better we are able to start projecting, or Senator Sasser, or whoever is going to chair this committee, will be able to project what next year's picture is.

We came within $200 million of bumping up against our total sequester number which, had we gone over, and hopefully we are not—remember, that is not just an across-the-board cut of the $100 million you go over or so; it is $10 billion on addition to that because of using up the cushion. So it is more than just wanting to pry; it is having a real need to know those details.

Mr. WALL. We have been very forthcoming in response to questions asked, and we will continue to be.

We provided confidential briefings to the two committees involved, as well as to other Senators who had specific interest in the FCA American transaction well before that September 5 announcement was made.

And I appreciate very much your reading as far as you did into that press release, because you identified one of the two outside forces that have to give their approval before there can be an agreement, whether we want it or the Bass Group wants it. Those two entitles are the IRS and the State of California.

And they are taking very independent approaches and views, as they well should.

So until that is completed, we do not have an agreement.

Chairman CHILES. But you know basically what the potential exposure is going to be——

Mr. WALL. And that is stated, as the $2 billion present value cost, which is exactly the same kind of information we provide in other cases.

With regard to this one, in fact, we have provided the information earlier than usual. We would not normally have made this release except for FCA's prominence in the State of California. We would not have made this information available until we actually had gotten IRS and the State of California's approval, as we did in all the other cases that we dealt with.

We do not, as a rule—it is very much the exception—announce anything until we have a final, signed agreement.

Chairman CHILES. Mr. Chairman, one of the concerns I have—I have had for some time—is what will happen when the economy finally does turn down. No recovery lasts forever. This one has lasted longer than we've seen any post-war recovery last.

We know that we have an awful lot of junk bonds that have been purchased. Those bonds, necessarily, if we go into a downturn, and certainly if it's a recession, there will be some exposure on those bonds. I was posing that as a future problem, and several people in the financial management area said the problem is even going to be exacerbated because a number of the savings and loan institutions, a number of them that have little net capital worth, are purchasers of those junk bonds. Because these bonds have a high interest yield, they look like they might be the way out for these barely solvent savings and loans. Also, these bonds provide a way in which the people who are now running those institutions can attempt to continue to have some kind of cash flow.

Can you give me some idea about the exposure of savings and loans to the risks of junk bond holdings? Do you have any authority in that area? Are junk bonds being purchased by savings and loans under Federal charters as well as under State charters? Is there a double whammy that could be sitting out there?

Mr. **Wall**. I think it is a very good question, Senator, and I am having staff give me the update as to the current status. The amount of the assets of the industry that are represented by junk bonds is a very small percentage. [Conferring with staff.] My memory was correct, but I wanted to check it. It was burned into my mind on the 19th of October last year, when we got calls as to equity investments by the industry from the press and so on, wanting to know our status, including of course, investments in junk bonds, because there was a question as to what was going to happen in the market.

First things first. The equity investment of the industry as a whole is only 1 percent of all the assets of the industry—because for the most part they are not permitted to invest in equity.

On the side of investment in junk bonds, industry-wide, it is between 1 and 2 percent—industry-wide, State and Federal alike. The federally chartered institutions may invest in junk bonds within limits, within strictures, that are tighter in some cases than some State laws and some State charters would permit. There are institutions of both State and Federal charters that are investors in junk bonds, but it is a very, very short list of institutions and overall a very small percentage as a whole.

Chairman **Chiles**. Senator Kassebaum.

Senator **Kassebaum**. Thank you, Mr. Chairman.

First, Mr. Wall, let me say I don't pretend to understand all of the ins and outs of this, and I am very appreciative of the Chairman calling this hearing so the Budget Committee can begin to think about some of the suggestions for solutions.

I'd like to take a couple of these that you responded to in question 3, on some of the suggestions for a way to resolve the situation.

One—and as you say, these aren't the priorities, I suppose the answer is—is to raise the insurance premiums, and you talked earlier about a risk-related premium, or continue the special assessment, as you suggested, for 30-some years.

Let me just say in raising the premiums, you know that that was part of the discussion, of course, when we did raise premiums, that they should be even higher, and that was not possible, and I just think politically, that's not feasible.

Now I would like to explore with you the other side of the coin, and that is to substantially lower the amount of the deposit coverage. It was $40,000, I believe, in 1974 and now $100,000. At the time, I believe, that it was raised, the reason for raising the coverage was because the funds, reserves, totalled $6.62 billion.

It would seem to me that it might make some good sense now at this point to reduce for future and transferrable deposits, on either an institution-by-institution basis or industry-wide basis, that coverage.

Mr. **Wall**. Well, Senator, you made an observation or an assessment as to the political possibility of raising the premiums. I think you might have similar kinds of problems in terms of lowering the amount of insurance on deposits, even in a prospective sense.

But let me say, whether it be those ideas or others, I think the universe is something different from what has been before, the Congress and the agency, as well as the new Administration in the past. So that there are some, perhaps, different views than from what have been the traditional approaches.

Senator **KASSEBAUM**. Well, would you support looking at reduced coverage?

Mr. **WALL**. I think everything has to be looked at, Senator, and in that sense I would say that we very much support the language that the Senate passed to create a Deposit Insurance Commission. And we are concerned that on the House side, they are only proposing a FSLIC Insurance Commission review. I don't think you can look at deposit insurance or the questions of FSLIC without looking at the questions of the FDIC as well.

Senator **KASSEBAUM**. Well, that was the second part that I was going to mention, because you had down here, "draw on the resources of the FDIC" and either, as you say, an outright allocation of these resources or a loan of their resources that could provide interim cash. And I would just add to that, "and a long-term headache".

It seems to me if we look at that solution that we are only borrowing trouble.

Mr. **WALL**. I couldn't agree more. And I think I answered that earlier.

Senator **KASSEBAUM**. And I, as a matter of fact, would vigorously oppose that unless we are willing to look at lowering coverage. And I don't see any way we can maintain the $100,000 coverage unless we substantially increase the premium. And as I say, I just don't see that in the cards. That is why I wondered if you had given any consideration—because it isn't listed here—to the reduced coverage.

Mr. **WALL**. Well, as we indicated, this list is by no means exhaustive. We just tried to take some items about which we had heard a lot of discussion thus far, and we selected only items that were not an obligation to the taxpayer. There are a number of things, and the list is longer, and as I said, we will provide a much longer list later. We will then comment on what we think and what recommendations we will make.

But from your observations already, Senator, I would say in all due respect you sound like a good candidate for the Commission in terms of your view and your willingness to look at it with an open mind. I think that's what has to be done. It is a new day.

Senator **KASSEBAUM**. Well, I agree, I agree, and I think, as you say, there is enough blame to go around for everyone, and that's not what our responsibility is at this point. It is trying to find a solution.

Mr. **WALL**. Except this time of the year, maybe.

Senator **KASSEBAUM**. Well, that's true. You have seen us in operation for quite some time. But I think that part of it, and I think that's why this hearing is useful, is trying to understand what is involved. And I think it is very confusing. As I say, I certainly can't pretend to understand it, the different figures that are raised, what is the taxpayer's responsibility—and ultimately, that is what it comes down to, and I think that is where it gets very confusing.

So I would just urge you to put, perhaps, that one of the solutions on the list be the reduced coverage as an alternative that I think is——

Mr. **Wall**. Oh, it is on the list, it is on the longer list, without question.

Senator **Kassebaum**. Thank you.

Chairman **Chiles**. Senator Exon.

Senator **Exon**. Mr. Chairman, thank you very much.

Welcome, Mr. Wall. I just have a question or two. I have been tied up in an Armed Services Committee meeting this morning and am sorry that I couldn't listen to your whole testimony, because I am very much concerned, and I think we want to be totally helpful in working out of this problem.

Let me see if I can get some overall estimates from you as to cost, and maybe you can quiet some of my concerns. You have stated in testimony today, and we are aware of that fact, that you have various tools that can be used to work out the problem that you have identified. But in recent months, the total problems in billions of dollars have been escalating very rapidly.

As a Budget Committee member—and I think this is a prime responsibility of the Budget Committee—to try and get an assessment, as best we can, of how much money this is going to cost in the future; I am not sure that you are in a position to give us that figure today or, if you had it, if you would give it to us.

Let me phrase the question this way. With all of the tools that you are using today, I am most fearful of the fact that they might tend to just put off facing the problem. But of all of the means at your disposal presently, they don't show up in the budget today, but in the end would it be safe to say that the commitments that are being made today are a ticking time bomb, so to speak, for the Budget Committee and the Congress in the future because, while it does not show up in the budget today, it is safe to assume, is it not, that this difficulty will show up in the budget outlays at some time in the future.

Mr. **Wall**. No; I don't think it is fair to say that it doesn't show up in the budget today, Senator. The amount of a FSLIC note, if that's what we use, is booked in its entirety in the budget on a current basis. If we provide cash assistance, it is booked in its entirety in the year in which the cash is paid.

So I don't think it is fair to say it is a ticking time bomb in that sense. We have tried in two different ways to identify the cost and provide for it in an accounting sense, in the terms of Government accounting. And that is, as I say, basically by booking the notes as they are actually issued, as they are injected into the institution, and the cash is allocated and accounted for when it is paid, and on the other side, providing for them on a present-value basis, in terms of the overall estimate of cost.

So either way you want to look at it, we are trying to provide for the identification of the cost, and it is not, I would say to the to the contrary, a ticking time bomb.

There are yield maintenance payments that will be provided——

Senator **Exon**. That was my next question. I am glad you are talking about it. What about yield maintenance, yield subsidy and capital loss guarantees, those things that are not part of the budget—that's the ticking time bomb I'm talking about.

Mr. **Wall**. Well, they become part of the budget when they are paid; when that obligation is actually paid for, it becomes part of the budget. It is identified as an obligation in our present value costing of the case resolution. So either way, we have provided for it; actually, we are providing for it both ways. We are present-valuing our estimate of our costs in the 10-year time frame in terms of a typical contract for assistance. We present-value it today and announce that number, as in the case of American Savings in Stockton, California; that's a $2 billion estimate of cost.

Now, the expenditure over the 10 years of that contract will be greater than that, and the net will be $2 billion. As an example, by the end of this year, we will have issued notes and obligations perhaps in excess of $30 billion.

Senator EXON. But that doesn't show up in the budget now.

Mr. WALL. The note portion shows up in the budget in its entirety, and the other portions show up as they are paid, in terms of the budget. In terms of the numbers provided to you and to the Congress, we provide the present value cost of all of those up front, what the present value is.

So you are talking two different sets of numbers, I acknowledge. But the people who are watching and who are concerned about these issues can make that distinction if they will but ask the question.

Senator EXON. But you don't mean to leave the impression here, do you, that all of this is fully known and will be fully known to us when we begin the budget mark-up after the first of the year. Guarantees are not no more than your cosigning for the taxpayers on outlays in the future. If everything works out, then there wouldn't be any outlays at all. If they don't work out, then that could be a ticking time bomb in the future, couldn't it?

Mr. WALL. Senator, I am not tracking with you on the ticking time bomb aspect, and it has been pointed out to me by staff that I need to restate one point that I made. Where I indicated we present-value all of the costs, that's the $45 to $50 billion number we have identified today. We also book the present value the amount of the maintenance agreements at the same time we book the notes. That is what staff is pointing out to me. The present value amount of the maintenance agreement is booked at the same time as the note. Then it is actually accounted for in the budget as the outlays are made. But we make the present value booking at the same time as the note.

Senator EXON. And it is your best judgment that that figure that you have just given us would be the maximum that we are likely to face in the future.

Mr. WALL. At this point in time, with the data available and the base of experience that we have had, that is the best estimate we can make. Now, admittedly, you tell me what oil is going to be worth in Texas or in Oklahoma or in your home State or in Kansas——

Senator EXON. Nebraska.

Mr. WALL. I know, but I mean "or Kansas", between yours and Oklahoma. Yours is often not included in the oil patch States, but there are in fact, oil and gas resources available in your State.

You tell me what oil or gas is going to be worth, and you tell me what the interest rate is going to be.

The Chairman talked about how long the recovery would continue. I will submit to you, in all due respect, Senator, that people in Texas don't see it as a recovery. They see it as—they are in a recession. And their concern is whether they will get any deeper in that situation, whether it be Texas or Oklahoma.

Senator EXON. Thank you.

My time is up, Mr. Chairman. Thank you very much.

Chairman CHILES. Thank you, Mr. Chairman. We appreciate you and your members being present.

Mr. WALL. We look forward to working with you and your staff. Thank you very much.

Chairman CHILES. Thank you, sir. As you know, there will be some written questions that will be submitted for the record.

Now we will hear from Mr. Frederick Wolf, the Director of the Accounting and Financial Management Division of the General Accounting Office and Bert Ely, President of Ely & Company. We also have with us George Barclay, President and Principal Supervisory Agent of the Federal Home Loan Bank Board of Dallas.

Gentlemen, we thank you for your appearance. We apologize for the hearing running late. That is always something that gets away from us.

I would ask you if you could to try to hold your statements down, so we will have an opportunity to ask a few questions.

Mr. Wolf, we are going to let you start off.

STATEMENT OF FREDERICK D. WOLF, DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. WOLF. Thank you very much, Mr. Chairman.

Let me just summarize. You have a rather lengthy statement from us that we can make part of the record.

Chairman CHILES. Your statement in full will be included in the record, and we thank you for your work on that statement.

Mr. WOLF. Thank you.

As you know, the financial condition of a portion of the savings and loan industry and of FSLIC are what we would term deplorable. In 1987, two-thirds of the institutions were profitable, but one-third reported losses totalling over $13 billion, and there were 500 institutions that were insolvent.

Industry losses continued into 1988. In the first six months, the losses by the insolvent institutions were $8.7 billion, and profits from the remaining institutions were only $1 billion.

FSLIC in 1987 had a loss of $8 billion and a $14 billion deficit. In 1988, those losses have continued, in fact have mounted. Twenty billion dollars has been spent on the 126 resolution actions carried out through September 30 of this year.

Because its financial resources are severely limited, FSLIC has been forced to rely upon the use of large promissory notes and other future commitments in its efforts to act on the industry's troubled thrifts.

Since January, FSLIC has issued $8.5 billion worth of notes. That is through September 30. In addition, they have issued or granted assistance guarantees for the Southwest Plan alone amounting to $15 billion on a cash basis.

In total, in other words, in 9 months, FSLIC has incurred specific commitments of almost $25 billion. That is an extraordinary amount, and the last 3 months have seen the biggest chunk of those commitments being entered into.

These notes and guarantees constitute commitments of the United States. They are of concern from a budget perspective because taxpayer funds are going to be needed to pay for at least a part of these obligations.

Currently, there is no limit on the amount of notes and other commitments that FSLIC can issue, and we believe that a specific dollar limit should be established.

For 1989 for the budget, OMB has recorded the face value of the FSLIC notes as outlays in the fiscal year in which they are going to be issued. We agree with that treatment. However, that does not in itself reflect a legal constraint on the amount of notes that FSLIC can issue.

For fiscal year 1988, FSLIC issued notes in amounts that exceeded the estimates in the 1988 budget by $4 billion. The underestimates for 1988 raise a question about what to expect for fiscal year 1989. OMB has estimated that FSLIC will issue $4.5 billion of notes in 1989, and that is what is in the budget estimates.

Based upon FSLIC's actual cost to date, this estimate appears hopelessly low. The projection was important in OMB's initial determination that a sequestration will not be required in fiscal year 1989.

Unlike the notes, FSLIC guarantee agreements are not recorded as budget outlays until they are paid. We would treat the FSLIC guarantees as transactions like the notes, which essentially satisfied FSLIC's commitments under assistance agreements and would suggest that OMB and CBO report them as outlays in the year of issuance.

Reporting outlays for the FSLIC guarantees would not affect the 1989 budget totals for the deficit calculation, but they would impact on future year calculations.

Chairman **Chiles**. So you are saying in addition to the notes, the guarantees also should be treated as outlays.

Mr. **Wolf**. That's right. There is some uncertainty as to amounts involved, but there is really no uncertainty that we're going to pay big dollars on those guarantees. The notes and the guarantees are just sort of alternate forms of the same kind of thing.

Chairman **Chiles**. And the present estimate of OMB, you think, is hopelessly low?

Mr. **Wolf**. That's right, yes.

Mr. **Barclay**. Excuse me. Would it be appropriate to make a comment on that at this point in time? Just as a point of reference, the Dallas Bank had received over $1.5 billion of FSLIC's guarantees during 1986; today, that number is down to $20 million. So I don't think that it is appropriate to record those guarantees as a budgetary outlay, because the guarantees may go away.

Mr. **Wolf**. I would disagree. Those guarantees are not going to go away.

There is no dispute that FSLIC's resolution costs during 1988 have vastly exceeded its 1987 estimates. It has acted on, as I said, 126 institutions at a reported cost of $20 billion plus. That is more than double the cost projected at the end of last year.

The differences are due, really, to three things. There have been continuing losses in the industry and therefore continuing costs associated with those institutions. They have had to liquidate rather than merge more of the institutions than they had estimated, and liquidation is more expensive than merger. Also, additional guarantees are being demanded by acquirers because of the poor condition of those individual institutions. In other words, every time that you close one of those institutions, you find that it is even worse than anybody had anticipated.

These higher-than-expected costs call into question FSLIC's ability to marshal the financial resources necessary to pursue its strategy without additional funding.

We currently believe that the costs associated with cleaning up the problem, the remaining costs, are in the $45 to $50 billion range.

Chairman CHILES. Now, your number differs a little—as I understand it, you are not giving credit for the $20 billion. You are not saying of that $45 billion, $20 billion has already been paid.

Mr. WOLF. That's right.

Chairman CHILES. You are saying from now, we are looking at $45 to $50 billion.

Mr. WOLF. Yes; and we can get into specifically how we get there, but that's what we're saying.

It is clear that the severity of the industry's problems significantly exceed the resources which FSLIC has available to it. It is also clear to us that the industry is no longer in the position to pay for all of the costs involved. I would ask you to focus on one thing that I said. Last year, the industry earned I believe it was $7 or $8 billion for the profitable group. In the first 6 months of this year, those profits were only $1.2 billion.

Chairman CHILES. $1.2 for the entire industry?

Mr. WOLF. For the profitable segment. That's the group that in effect is going to be asked to pay for this problem. They had between $1 and $1.5 billion of profits in the first 6 months. That is much lower than their average earning rate last year.

Therefore, we think that Congress is going to be faced with the difficult task of determining where the additional funds are going to be obtained.

In summary, I guess I would emphasize three or four things. FSLIC does not have the resources to solve the problem, and it cannot currently undertake substantial actions on the industry's problems without resorting to making future commitments. Those notes and guarantees are obligations of the United States, but there is no statutory provision limiting the amount of commitments that they can enter into. Accordingly, we believe that some kind of cap or limit needs to be placed on them.

Whether or not the current strategy of merging insolvent institutions results in viable entities remains to be seen. There are some of those cases where that is not clear. Also, the costs which FSLIC has incurred do not appear in their full magnitude in the budget today.

Thank you very much.

Chairman CHILES. Thank you.

[The prepared statement of Mr. Wolf follows:]

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Budgetary Implications of the Savings and Loan Crisis

Statement of
Frederick D. Wolf, Director
Accounting and Financial Management Division

Before the
Committee on the Budget
United States Senate

GAO/T-AFMD-88-19

Mr. Chairman and Members of the Committee:

We are pleased to appear today to discuss issues related to the budgetary impact of the thrift crisis and of the Federal Savings and Loan Insurance Corporation's (FSLIC) use of notes payable and other commitments to help resolve its caseload of hopelessly insolvent thrifts. In discussing these issues, several points need to be considered. First, the severity of the industry's problems exceeds the resources FSLIC can marshall over the next decade through currently available sources. Accordingly, a substantial cash infusion will probably be required to enable FSLIC to continue to resolve problem cases and stem future losses. Second, because FSLIC's cash resources are severely constrained, it has resorted to issuing billions in notes and other commitments for which the federal government is ultimately responsible. Third, FSLIC's current and future commitments potentially represent significant amounts of federal spending, but, in our view, they have not been adequately disclosed in the budget process. Before discussing these issues in more detail, I would like to briefly discuss the financial condition of the savings and loan industry and its insurer, FSLIC, to provide some perspective on why FSLIC relies on the use of notes and other obligations in its resolution actions.

THE SAVINGS AND LOAN INDUSTRY'S FINANCIAL CONDITION

Over the last decade, the financial condition of many savings and loans, especially those in the Southwest, has suffered as a result of several factors including diversification into risky activities, high cost of funds, insufficient supervision, and severe economic downturn in certain sectors of the economy. Although almost two-thirds of the savings and loan industry was profitable in 1987, earning $6.6 billion, those profits were far outweighed by the $13.4 billion loss experienced by the remaining one-third of the 3,147 FSLIC-insured institutions. Thrifts in the Southwest, which account for only 15 percent of the industry, were responsible for 67 percent of the losses. At the end of 1987, over 500 insolvent institutions, including 124 in Texas alone, with negative net worth of $18 billion as measured by generally accepted accounting principles (GAAP), were still operating.

The industry's decline has continued into 1988. Second quarter results show that the thrift industry experienced an overall net loss of $7.5 billion during the first 6 months of 1988. While solvent institutions had net income of $1.2 billion, insolvent institutions incurred losses of $8.7 billion. As of June 30, 1988, 497 institutions with assets of $188 billion were insolvent with reported negative GAAP net worth of $26 billion. These continuing losses increase the costs of resolving the thrift industry's problems.

FSLIC'S FINANCIAL CONDITION

The worsening condition of the industry's troubled segment has had a corresponding effect on the condition of its insurer, FSLIC. Until relatively recently, FSLIC had been able to operate on a self-sustaining basis, generating sufficient revenues from premiums paid by member institutions to cover the costs of assisting or closing troubled institutions as needed. However, since 1981, FSLIC's insurance fund has steadily declined from a surplus of $6.3 billion in 1981 to a deficit of $6 billion at the close of 1986. As disclosed in our report to the Congress on FSLIC's 1987 financial statements (GAO/AFMD-88-58, July 5, 1988), during 1987, FSLIC incurred a net operating loss of $8.6 billion, resulting in a $14 billion deficit--more than double its 1986 deficit. This operating loss was primarily attributable to the $7 billion increase in FSLIC's liability for failed but still operating savings and loan institutions, as well as $3.5 billion in losses related to institutions that had received financial assistance or had already closed. During 1988, FSLIC's operating losses have continued. FSLIC's records indicate that it has incurred costs of $20.2 billion related to the 126 resolution actions carried out through September 30th of this year.

In the last few years, FSLIC did not act promptly to resolve the industry's problems due in part to its precarious financial condition and limited financial resources. Responding to FSLIC's need for additional funds, in 1987, the Congress authorized FSLIC to receive the proceeds from the sale of $10.8 billion in bonds over a minimum 3-year period. In the first year, FSLIC received the maximum amount allowable from the sale of $3.75 billion in bonds which were issued at interest rates of between 9.4 and 10.7 percent.

While these additional funds have helped, FSLIC's cash resources have remained low. At the end of 1987, FSLIC had cash and Treasury investments of only $2.9 billion; at September 30, 1988, it had cash and Treasury investments of only $1.7 billion. Because its cash resources are limited, FSLIC has been forced to rely upon the use of large promissory notes and other financial commitments in its efforts to act on the industry's most troubled thrifts.

FSLIC'S CURRENT RESOLUTION STRATEGY DEPENDS UPON NOTES TO FINANCE MERGER-TYPE TRANSACTIONS

As previously discussed, FSLIC has been insolvent for the past 2 years and continues to conduct its operations at a loss. Consequently, FSLIC's ability to deal with insolvent savings and loan institutions has been severely constrained. FSLIC is authorized by 12 U.S.C. 1729 and other provisions, at its sole discretion and upon terms and conditions it prescribes, to use loans, deposits, purchases, assumptions, and contributions to resolve cases and reduce the threat to the insurance fund. However, FSLIC is authorized to assist troubled institutions only if the assistance is less than the cost of liquidation, unless FSLIC determines that the continued operation of the institution is essential to its community.

FSLIC has essentially two options for resolving the problems of troubled institutions--liquidations or merger/acquisition transactions. While both options may involve substantial costs, FSLIC estimates have indicated that liquidation is more expensive and, therefore, should be the option of last resort.

In a merger or acquisition action, a troubled institution is acquired by another, presumably healthier, savings and loan, or by investors wanting to enter or expand their presence in the industry. The cost of this resolution action is the result of negotiations between FSLIC and the acquirer, and the action usually requires FSLIC to provide assistance in the form of cash, notes, and various guarantees to eliminate failed institutions' negative net worth and to help shield the acquirer from the risk of future losses on the institutions' assets or from litigation.

FSLIC's strategy for maximizing its limited financial ability to act on seriously troubled institutions, particularly those in the Southwest, emphasizes using acquisitions or mergers rather than liquidations and, to the extent possible, providing assistance in the form of notes and guarantee agreements rather than cash. Between January 1st and September 30th of this year, FSLIC acted on the problems of 126 savings and loan institutions: 106 institutions were merged with and/or acquired by other institutions in 52 transactions, and 20 institutions were liquidated. In carrying out these transactions, FSLIC issued a total of 28 notes, with combined principal amounts of $8.5 billion. The terms of the notes varied, ranging from 6 months to 15 years, and, for the most part, carrying variable interest rates.

FSLIC Is Also Expanding Use Of Assistance Guarantees

In addition to cash and notes to compensate for net worth deficiencies, FSLIC often agrees to compensate acquirers for future losses of failed institutions in merger-type transactions. Assistance agreement provisions usually include some or all of the following guarantees:

-- coverage of net capital losses due to writedowns or sales of problem assets;

- yield subsidies on non-performing assets to ensure a specified rate of return on assets;
- indemnification against undisclosed liabilities or litigation; and
- purchase of certain impaired assets from the failed thrift.

Such guarantees represent a significant portion of the costs of FSLIC's resolution actions. For example, FSLIC's guaranteed assistance commitment for Southwest Plan cases thus far amounts to about $9 billion on a present value basis and about $15 billion on a cash basis.

Ultimately, guaranteed assistance represents a claim on FSLIC's future cash resources; however, unlike notes, the ultimate cost of guaranteed assistance can only be estimated when the agreement is signed. Even the best estimates may substantially differ from the eventual costs. We understand that the assistance agreements generally do not establish a limit on the maximum dollar liability to which FSLIC is exposed. Instead, FSLIC's exposure depends on conditions or events about which it has incomplete knowledge and over which it has little or no control. We believe FSLIC should amend its policy in this regard to set an upper limit on all such future guarantee agreements.

In providing guaranteed assistance against future losses, FSLIC is gambling that the thrift's performance will improve through better management, changed economic conditions, or better than anticipated quality of its assets. Favorable changes in interest rates or in real estate markets in certain currently depressed areas could result in FSLIC payments on guaranteed assistance being lower than the amount an acquirer would demand at the time a merger agreement is ratified. However, the downside risk of such guarantees is that future conditions may be unfavorable, thereby increasing the payouts required to meet FSLIC's obligations under the agreements. For the acquirer, FSLIC assistance guarantees remove many of the risks inherent in merging with a thrift with demonstrated asset problems and undisclosed liabilities.

We believe FSLIC commitments under notes and assistance guarantees constitute commitments of the United States. Accordingly, they are of concern from a budget perspective because a strong likelihood exists that appropriated funds will be required to pay at least part of these obligations. For this and other reasons, we recently issued a report (GAO/AFMD-88-57, May 20, 1988) to the Chairman of the Federal Home Loan Bank Board in which we recommended that he publicly announce the total amount of notes and guaranteed assistance FSLIC intends to provide in connection with resolution actions. The Bank Board responded that it has given public assurances that its projected revenues would limit the amount of notes to be issued, and that FSLIC's cash flow projection, as provided to the Congress on July 7, 1988, showed it would be able to meet its commitments for both notes and guarantees.

We believe a more certain limitation on notes and other commitments needs to be established rather than simply linking them to FSLIC's cash forecasts. As discussed later, these projections are based upon extremely optimistic assumptions and are subject to change solely at FSLIC's discretion. Furthermore, FSLIC has already exceeded the amounts of notes to be issued and total notes outstanding for fiscal year 1988 as specified in the cash projection the Bank Board provided to the Congress on July 7, 1988. Accordingly, we believe a specific dollar limit should be established on the total amount of notes and other commitments which FSLIC may issue.

BUDGETARY IMPACT OF FSLIC NOTES AND GUARANTEES

When FSLIC issues notes, the principal amounts of the notes are recorded as outlays, and budget authority and obligations for making the outlays are also recorded at the same time. The recorded outlay, as with other budget outlays, increases the reported budget deficit. We believe that this method of scorekeeping for FSLIC notes, currently employed by the administration and the Congressional Budget Office (CBO), is appropriate.

We understand that FSLIC did not follow these scorekeeping policies prior to the issuance in February 1988 of the President's budget for fiscal year 1989. Consequently, prior budgets did not show outlays for the FSLIC notes when they were issued, but only for the cash payments later made on the notes. Because of the payment terms on the notes, this practice reduced their impact on the deficit for the years in which they were issued.

For the fiscal year 1989 budget and beyond, the Office of Management and Budget (OMB) has required FSLIC to record the face value of the notes as outlays in the fiscal year in which they are issued, on the theory--a reasonable one, we think--that the notes are cash-type transactions intended to satisfy an obligation of government entities. For Treasury reporting purposes, this practice was adopted for fiscal year 1988.

Including outlays in the budget for FSLIC notes provides more timely budget disclosure to the Congress and the public of FSLIC's financial activities. This is a step forward. However, we emphasize that such improved disclosure does not, in itself, reflect a legal constraint on the amount of notes FSLIC may actually issue. For fiscal year 1988, FSLIC issued notes in amounts exceeding those estimated for 1988 in the OMB budget materials. As of September 30, 1988, FSLIC had issued about $10 billion in notes. The President's budget, released in February 1988, estimated that note issuances for 1988 would total only $4 billion. Subsequently, OMB's July 1988 mid-session adjustments to the estimate for the 1988 budget only raised this amount to $5.8 billion.

As for the implications of this 1988 pattern of underestimates for the Gramm-Rudman-Hollings deficit reduction law and procedures, two points should be made. First, the issuance of FSLIC notes in fiscal year 1988 above earlier projections did not trigger any 1988 sequestrations in other parts of the budget to meet overall deficit reduction targets. The deficit reduction statute does not apply to--and therefore no fiscal year spending reductions result from--actual FSLIC note issuances in fiscal year 1988 that exceed the administration projections that were made as required in 1987.

Second, the administration's underestimates for fiscal year 1988 raise a question about what to expect for fiscal year 1989. OMB is required by law to include its estimates of FSLIC outlays for fiscal year 1989 in its projection of the 1989 budget deficit. As part of these outlays, OMB estimated that FSLIC will issue $4.6 billion in notes in 1989. Based upon FSLIC costs to date, this estimate appears hopelessly low. The projection was important in OMB's initial determination that a governmentwide sequestration would not be required in 1989. (While FSLIC itself is exempt from sequestration, its activities can effect whether other agencies' spending will be cut under the Gramm-Rudman-Hollings deficit reduction.) Meaningful deficit reduction requires accurate OMB estimates, and we can only hope that OMB's future estimates regarding FSLIC notes are more accurate forecasts.

We agree with OMB's position that requires these notes to be reflected as outlays when issued. We also believe that legislatively placing limits on the amount of notes FSLIC can issue would provide an important control mechanism that is not included in the federal budget process.

Current Budget Treatment Does Not Adequately Reflect Commitments Under Guarantee Agreements

FSLIC guarantee agreements, unlike notes, are not recorded as budgetary outlays until the time of cash payout. Such treatment assumes that these agreements are analogous to traditional loan guarantees, and that payments by FSLIC under these agreements are not certain. Under current budgetary law and convention, there are no recordings of obligations, liabilities and outlays at the time that loan guarantees are extended. This is because the guarantor's responsibility for payment is contingent upon some future occurrence which is considered unlikely or only possible. For example, the government does not incur an obligation and liability for specific loans guaranteed under its student loan program unless the loans go into default.

However, it may be argued that FSLIC guaranteed assistance agreements are not the same as typical guarantees. This is recognized, in part, by the budget's current treatment of the FSLIC guarantees--obligations are recorded for the guarantees at the time of their issuance. This reflects the fact that a FSLIC payment is not an uncertainty at the time an assistance agreement is issued, only the ultimate cost of the required payout is unknown. Therefore, we would go one step further and treat the guarantees as transactions that, like the notes, essentially satisfy FSLIC's commitments under the assistance agreements. For this reason, we would suggest that OMB and CBO report outlays for the assistance agreements in the year of their issuance.

FSLIC analyzes the various types of assistance involved in each agreement and prepares a "best estimate" of the total payout required under the terms of the agreement on both a cash and present value basis. We believe that the cash basis estimate is most useful as an indicator of the size of the government's commitment and should be used to record the budget outlay amount.

Further, reflecting assistance agreements in the budget in a way that captures the essential nature of the transactions would facilitate placing a legislative limit on the amount of the agreements. Because of the strong likelihood the taxpayers will ultimately have to bear some of the cost of honoring these agreements, it is important that the Congress be aware of--and in a position to control--the amounts being spent by FSLIC.

We would add that reporting outlays for the FSLIC guarantees would not affect the fiscal year 1989 budget totals for Gramm-Rudman-Hollings deficit calculation purposes. The technical and conceptual assumptions governing the 1989 calculation have already been published by OMB. Such a change, however, would increase the outlays affecting the calculations for subsequent years.

FSLIC'S RECENT RESOLUTION ACTIONS

The costs of 1988 resolution actions continue to exceed the amounts FSLIC estimated in conjunction with its 1987 financial statements. These statements indicated its total resolution costs could amount to $22.7 billion for about 500 institutions that were insolvent according to generally accepted accounting principles as of December 31, 1987. This amount was comprised of two parts--$17.4 billion primarily for about 200 institutions for which FSLIC had formally accepted responsibility for incurring resolution costs, and $5.3 billion for the remaining 300 or so additional insolvent institutions. In our report on FSLIC's 1987 financial statements, we concurred with the $17.4 billion accrual for the approximately 200 FSLIC cases, but noted that a more realistic estimate for the remaining 300 insolvents would be between $9 and $19 billion. Accordingly, we estimated that total resolution costs at December 31, 1987, ranged from $26 to $36 billion.

FSLIC's resolution costs during 1988 have vastly exceeded the December 31, 1987, estimates.[1] FSLIC has acted on 126 problem institutions in 1988 at a reported cost of $20.2 billion. One hundred six institutions were merged or acquired and 20 were liquidated. For liquidations, the actual cost of $2.3 billion exceeded FSLIC's estimate of $1.7 billion by 35 percent. For mergers, the actual cost of $17.9 billion exceeded the estimate of $8 billion by 124 percent. Bank Board and FSLIC officials have attributed the differences to:

- -- losses experienced between the time of the estimate and the time of closing;
- -- the decision to liquidate certain high-paying thrifts, rather than continue to search for merger partners, in order to reduce the cost of funds for the industry as a whole; and
- -- additional guaranteed assistance being demanded by acquirers due to the seriously impaired nature of assets held by failed thrifts.

Based upon the 1988 resolution experience, we have revised our estimate of the total cost to FSLIC for resolving the problems of the currently insolvent thrift institutions. We now believe that the cost will be at least $45 to $50 billion.

Actions Under the Southwest Plan

Included in the actions discussed above were 42 thrifts merged in 10 separate transactions between May 13, 1988, and September 30, 1988, under the Bank Board's Southwest Plan. The total estimated cost to FSLIC of these transactions is $13.9 billion, consisting of $3.6 million in cash outlays, $5.1 billion in notes payable (principal and interest), and $8.8 billion under various assistance and guarantee agreements. According to Bank Board officials, the combined net worth of the individual institutions before merger was negative $9.1 billion. The officials estimated the capital ratios of the new institutions created through the first six Southwest Plan mergers at between 0 and 3.6 percent as calculated using regulatory accountin~~g principles.~~ Attachments II and III provide more data on the individual transactions under this plan.

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[1] Details of FSLIC's 1988 actions are included in Attachment I to this statement.

To date, we have not analyzed the Southwest Plan strategy or its individual transactions in detail. However, based upon the limited information we have, we can offer the following two observations.

First, authoritative information on the net worth of the newly merged institutions, as calculated according to generally accepted accounting principles, will not be available until the new entity is audited as required by the merger agreement. However, based on the reported regulatory capital ratios, these institutions appear to be thinly capitalized. Merging several insolvent institutions into a larger entity that remains thinly capitalized does not necessarily represent a final problem resolution. In our view, the term "resolution" is only appropriate when the new entity has recognized all losses on problem assets, meets established capital requirements, and is otherwise economically viable. Consolidations that fall short of this criteria may result in reduced losses to some extent through such factors as economies of scale, reduced competition for deposits, and enhanced supervisory oversight. However, whether or not such institutions can become viable entities without further assistance remains to be seen.

Second, the cost of implementing the Southwest Plan is significantly greater than FSLIC anticipated. FSLIC's estimate prepared in conjunction with its December 31, 1987, financial statements amounted to about $7 billion. More recently, the Bank Board Chairman revised the cost estimate for the Southwest Plan upward to $15.2 billion in his testimony before the House Committee on Banking, Finance and Urban Affairs on July 7, 1988. However, the cost of actions taken under the Southwest Plan this year have already amounted to almost $14 billion. Final costs may be even higher once the auditors determine the final net worth and asset valuation for the newly formed institutions and FSLIC adjusts the note or guaranteed assistance estimate to reflect these audited figures, as provided for in the merger agreements.

In summary, FSLIC actions taken under the Southwest Plan cannot be considered final solutions until the newly created institutions prove viable. In addition, the higher than expected cost of actions taken under the Plan calls into question FSLIC's ability to marshall the financial resources necessary to pursue this strategy without additional funding. The likelihood is therefore increasing that the Congress will be faced with the difficult task of determining where the necessary additional funds may be obtained.

Questionable Assumptions In FSLIC's Financial Forecasts

Despite continuing industry losses and FSLIC's own insolvency, Bank Board officials have maintained that FSLIC can marshall sufficient financial resources to deal with the industry's problems without resorting to a request for federal funds. As you know, the Bank Board has produced various projections of the funds it expects to have available and the corresponding outlays it expects to incur. These cash flow projections indicate that FSLIC will be able to generate about $42 billion in revenues over the next 10 years and will be able to meet all of its obligations. However, we believe that these projections are based upon extremely optimistic assumptions regarding both expected revenues and resolution costs.

In determining the costs related to its caseload, FSLIC has assumed that:

-- It can minimize its resolution costs by selling or merging substantially all institutions rather than liquidating them since FSLIC liquidation estimates are almost invariably more expensive than mergers. However, in the last 9 months, nearly one-sixth of all resolution actions were liquidations.

-- New institutions created through the merger process will be economically viable and will not require FSLIC to incur additional assistance or resolution costs beyond those anticipated at the merger date.

-- It can act on most of the problem institutions in the next 2 years, thus minimizing those institutions' additional losses and the cost to FSLIC. Since assistance agreements usually contain provisions requiring FSLIC to, as a minimum, compensate the acquirer for the negative net worth of the troubled institutions, allowing severely troubled institutions to continue to operate and incur additional losses would increase FSLIC's resolution costs.

-- Interest rates will remain favorable and will not increase to any significant extent. Any significant increase in the cost of funds to the thrift industry could again exacerbate the financial pressures on the industry and cause additional deterioration in capital and profitability.

- Virtually no new problem cases will develop in the industry over the next 10 years, and no further significant resolution costs will be incurred beyond those currently identified. FSLIC's cash flow projections show virtually no reserve for future losses at the end of the 10-year period.

Similarly, FSLIC's revenue projections are based on several relatively optimistic assumptions regarding interest rates and future conditions in the savings and loan industry and in the U.S. financial markets. The effects of these assumptions are interrelated--should future conditions vary significantly, both FSLIC's projected revenues and outlays could be adversely affected.

- FSLIC assumes that insured deposits will grow about 7 percent annually, roughly doubling insured deposits over 10 years. Because FSLIC's premium income (both regular and special assessment) is based upon fixed percentages of insured deposits, its revenues increase significantly under this scenario. While this growth rate is consistent with the overall growth experienced over the past decade, we believe it may be overly optimistic. While deposits grew dramatically in 1983 and 1984, the growth rate declined in 1985, 1986, and 1987. Moreover, the moratorium on thrifts leaving the FSLIC system expires in August 1989--any significant departures of thrifts would result in corresponding decreases in deposit growth. This assumption further implies that other financial institutions are not able to take away any substantial portion of the thrift industry's current business.

- FSLIC's forecast assumes FSLIC will continue the special assessment of 1/8 of 1 percent of insured deposits throughout the next 10 years. Long-term continuation of the special assessment could encourage healthy thrifts to transfer to the Federal Deposit Insurance Corporation, thus eroding the deposit base from which FSLIC's premium income is generated. Conversely, not continuing the special assessment would potentially shift a portion of resolving the crisis currently borne by the industry to the taxpayer.

- FSLIC's revenue forecast projects that recapitalization bonds will be marketed at interest rates of about 10 percent, which has been the case thus far. While FSLIC receives the proceeds from the bond sales, it must also bear the interest costs on the bonds. The interest costs will be paid from FSLIC's assessment income over the 30-year life of the bonds. Thus, significant increases in overall interest rates would reduce FSLIC's income. Such a reduction would be compounded if higher interest rates were accompanied by slower deposit growth than FSLIC has projected.

We believe that these assumptions are highly optimistic and that a strong likelihood exists that they will prove incorrect. Moreover, we have already seen costs being incurred at a rate showing that FSLIC's projected resources, even under the most favorable assumptions, will not be adequate to cover them. An adverse change in any of these assumptions will reduce the Corporation's available funds and lessen its ability to resolve the industry's problems. In addition, while the Congress initially contemplated, both in originally establishing FSLIC and in recapitalizing it in 1987, that the industry would be able to provide the funds needed to resolve its problems, the deteriorated capital position and poor operating results of a large segment of the industry seriously impair its ability to do so.

Other Sources of Funds

In addition to funds from recapitalization proceeds, insurance premiums, investment income, and liquidating assets, FSLIC and the Bank Board have access to funds from other sources. However, each of these sources has drawbacks, and most do not add to FSLIC's reserves because the money must be repaid.[2]

-- Borrowing From the Treasury - FSLIC has a $750 million line of credit available if the Bank Board determines funds are needed for insurance purposes.

-- Borrowing From the Federal Reserve System - Two statutory provisions provide that the Federal Reserve Banks may make advances to corporations on notes secured by obligations of the United States and discount notes arising from commercial transactions in unusual and exigent circumstances. We are unaware of FSLIC requesting such advances or discounts or that the Federal Reserve Banks have determined whether FSLIC's transactions and available collateral are of the type for which these funding sources should be made available.

-- Borrowing From the Federal Home Loan Banks - FSLIC is authorized to borrow from the Bank System under certain limitations.[3] In addition, if the Secretary of the Treasury and the Chairman of the Bank Board certify to the Congress that alternative means of raising funds cannot be used and the ability to supply such funds is impaired, the Treasury can purchase up to $4 billion of Federal Home Loan Bank obligations, which could then be used to assist the thrift industry.

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[2] For more detailed information on these sources of funds, see Thrift Industry: The Treasury/Federal Home Loan Bank Board Plan for FSLIC Recapitalization (GAO/GGD-87-46BR, March 3, 1987).

-- Mandatory Infusion of Up To 1 Percent of Withdrawable Deposits Into FSLIC - The Bank Board is authorized to require insured thrift institutions to make such deposits into FSLIC. According to Bank Board officials, FSLIC could raise over $9 billion in this manner; however, its liabilities would increase by an equal amount.

FSLIC has not included funds from these sources in its projection and we agree with that decision. In our view, these sources are accompanied by serious disadvantages, and their use should only be considered in an extreme emergency.

SUMMARY

In summary, we would emphasize the following considerations.

-- A significant imbalance exists between the thrift industry's problems and FSLIC's financial capabilities. The Congress has provided FSLIC the means to obtain some additional resources, but the likely resolution costs for dealing with the currently troubled thrifts far exceed the resources that FSLIC will be able to marshall over the next 10 or so years. More importantly, the long-term effectiveness of FSLIC resources already used to prop up the industry remains to be seen.

-- FSLIC's financial condition is such that it cannot undertake substantial actions on the industry's problems without resorting to making future commitments. FSLIC notes and guarantees are obligations of the United States but, at present, no statutory provision limits the amount of commitments FSLIC can issue. Accordingly, we believe that the Congress should place a specific limitation on the commitments FSLIC may issue, regardless of whether they are in the form of notes, guarantees, or any other types of obligations.

-- Whether or not the strategy of merging insolvent institutions results in viable entities remains to be seen and must currently be considered a gamble. Should these newly formed institutions continue to incur losses or require higher than expected payouts under FSLIC's guaranteed assistance agreements, the ultimate cost of resolving the industry's problems could be significantly higher than our current estimates. In this regard, we believe all future assistance guarantee agreements should contain a dollar limit on FSLIC's maximum liability.

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[3] FSLIC has used this authority twice to fund pass-through loans to insured institutions.

-- The costs FSLIC has incurred and will continue to incur in attempting to resolve the thrift industry's problems have not been adequately reflected in the budget. First, the amount of notes to be issued in fiscal year 1988 was grossly underestimated at $5.8 billion only 3 months ago; however, notes actually issued for the year amounted to about $10 billion. Second, in regard to fiscal year 1989, OMB estimates net outlays of $2.7 billion for FSLIC which include $4.6 billion in estimated note issuances. Based upon FSLIC's remaining caseload, this estimate appears totally inadequate and brings into question the deficit calculations for fiscal year 1989 under the Gramm-Rudman-Hollings law. Third, current budget and reporting practices do not fully recognize FSLIC's use of assistance agreements in the year they are entered. Finally, any substantial infusion of taxpayer funds that may be required could reduce amounts available for other government programs.

Mr. Chairman, this concludes my formal statement. At this time, I would be pleased to answer any questions you may have.

ATTACHMENT I

ATTACHMENT I

FSLIC ASSISTED TRANSACTIONS
TO MERGE OR CLOSE PROBLEM INSTITUTIONS
FROM JANUARY 1, 1988 THROUGH SEPTEMBER 30, 1988

(Unaudited)
(All figures in thousands)

TRANS #	FAILED ASSOCIATION	TYPE OF ACTION	TOTAL ASSETS AT DATE OF FSLIC ACTION	REPORTED COST TO FSLIC	PROJECTED COST AT 12/31/87 **	INCREASE/ (DECREASE) OVER PROJECTED COST
1	FIRST FS&LA	ACQUISITION	$31,100	$14,000	$13,150	$850
2	MAGNET BANK, FSB TRADERS FS&LA MOUNTAIN STATE FS&LA	ACQUISITION	$710,000	$81,500	$81,470	$30
3	FIRST FS&LA	ACQUISITION	$30,900	$3,805	$3,810	($5)
4	FIRST FEDERATED SB PERPETUAL S&LA FIRST FSB PEOPLES FS&LA	ACQUISITION	$566,400	$157,000	$158,180	($1,180)
5	TRI-CITIES S&LA	ACQUISITION	$54,500	$15,800	$16,610	($810)
6	CITIZENS S&LA	ACQUISITION	$39,020	$6,100	$6,780	($680)
7	VALLEY FS&LA	ACQUISITION	$87,500	$7,080	$7,420	($340)
8	ALLIANCE S&LA COLORADO COUNTY FS&LA SECURITY S&LA CAMERON COUNTY S&LA	ACQUISITION	$455,800	$146,226	$48,009	$98,217
9	LAMAR SA CITY S&LA STOCKTON SA BRIERCROFT SA	ACQUISITION	$3,998,400	$1,980,323	$984,620	$995,703
10	FIRST FS&LA	ACQUISITION	$245,500	$72,100	$66,290	$5,810
11	EUREKA FS&LA	ACQUISITION	$1,740,000	$304,000	$285,050	$18,950
12	FRONTIER FSB	ACQUISITION	$48,050	$11,000	$10,640	$360
13	BLUEBONNET SA	ACQUISITION	$24,100	$9,900	$8,520	$1,380
14	FIRST FINANCIAL SA BROWNFIELD FS&LA	ACQUISITION	$370,000	$83,868	$27,997	$55,871
15	STANFORD SA	ACQUISITION	$76,500	$8,400	$5,840	$2,56
16	LYNNWOOD S&LA	ACQUISITION	$24,600	$6,100	$4,620	$1,480

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(Unaudited)
(All figures in thousands)

TRANS #	FAILED ASSOCIATION	TYPE OF ACTION	TOTAL ASSETS AT DATE OF FSLIC ACTION	REPORTED COST TO FSLIC	PROJECTED COST AT 12/31/87 **	INCREASE/ (DECREASE) OVER PROJECTED COST
17	MUSKEGON FS&LA	ACQUISITION	$202,000	$4,000	$4,200	($200)
18	GALVA FS&LA MUTUAL S&LA HOME FS&LA	ACQUISITION	$172,900	$33,800	$42,000	($8,200)
19	REPUBLIC SVGS. FS&LA	ACQUISITION	$36,500	$17,800	$17,800	$0
20	FIRST FS&LA	ACQUISITION	$84,900	$13,300	$19,850	($6,550)
21	FIRST FS&LA	ACQUISITION	$36,400	$2,700	$2,260	$440
22	IRVING SA LONGVIEW S&LA GLADEWATER FS&LA RICHARDSON S&LA MAJESTIC SA COMMERCE FS&LA PARIS S&LA AMERICAN BANC SA SKYLINE SA BEN MILAM S&LA MERCURY SA SOUTHLAND SA	ACQUISITION	$2,217,200	$1,313,780	$540,128	$773,652
23	FIRST FEDERAL BANK FSB WESTERN FS&LA	ACQUISITION	$49,600	$13,000	$12,210	$790
24	CAPITOL FS OF AM	ACQUISITION	$242,600	$16,100	$51,060	($34,960)
25	FIRST FS&LA FIRST FS&LA FIRST FS&LA WASHINGTON FSB PEOPLES S&LA PIONEER FS&LA	ACQUISITION	$1,088,900	$299,000	$251,535	$47,465
26	STATE FS&LA	ACQUISITION	$454,000	$581,787	$418,140	$163,647
27	COMMERCE FSB	ACQUISITION	$40,200	$17,400	$17,850	($450)
28	NORTHWEST FS&LA	ACQUISITION	$26,700	$2,390	$170	$2,220

FSLIC ASSISTED TRANSACTIONS
TO MERGE OR CLOSE PROBLEM INSTITUTIONS
FROM JANUARY 1, 1988 THROUGH SEPTEMBER 30, 1988
(Unaudited)
(All figures in thousands)

TRANS #	FAILED ASSOCIATION	TYPE OF ACTION	TOTAL ASSETS AT DATE OF FSLIC ACTION	REPORTED COST TO FSLIC	PROJECTED COST AT 12/31/87 **	INCREASE/ (DECREASE) OVER PROJECTED COST
29	HOMESTATE S&LA	ACQUISITION	$190,000	$44,700	$41,460	$3,240
30	BELL FS&LA	ACQUISITION	$953,500	$565,000	$600,050	($35,050)
31	SUNBELT SA INDEPENDENT AMERICAN SA WESTERN FS&LA SUMMIT SA TEXANA S&LA FEDERATED S&LA FIRST CITY SA MULTIBANK SA	MERGER	$4,826,300	$6,166,657	$2,488,359	$3,678,298
32	CAPITAL FSB MUTUAL FS&LA	MERGER	$3,559,000	$1,898,200	$282,528	$1,615,672
33	FIRST OK SB MID AMERICA FS&LA					
34	KINGFISHER FS&LA SUNBELT SAV FS&LA					
35	FRONTIER FS&LA HOME S&LA					
36	PHOENIX FS&LA CIMARRON FS&LA					
37	FIRST FS&LA HERITAGE S&LA HOME SB, FA PEOPLES FS&LA					
38	CITIZENS FS&LA	ACQUISITION	$62,700	$0	$3,986	($3,986)
39	FIRST FS&LA	ACQUISITION	$124,800	$19,600	$16,450	$3,150
40	FIDELITY FS&LA	ACQUISITION	$41,120	$3,700	$2,210	$1,490
41	BAY CITY FS&LA GULF COAST S&LA ALLENPARK FS&LA HEIGHT SA, FSB	ACQUISITION	$689,000	$556,866	$285,318	$271,548
42	CODGA FS&LA	ACQUISITION	$78,400	$12,900	$6,357	$6,543

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(Unaudited)
(All figures in thousands)

TRANS #	FAILED ASSOCIATION	TYPE OF ACTION	TOTAL ASSETS AT DATE OF FSLIC ACTION	REPORTED COST TO FSLIC	PROJECTED COST AT 12/31/87 **	INCREASE/ (DECREASE) OVER PROJECTED COST
43	FREEDOM FS&LA	ACQUISITION	$315,400	$23,100	$37,250	($14,150)
44	LOVES PARK FSB	ACQUISITION	$42,400	$4,900	$1,560	$3,340
45	CHAMPION SA	ACQUISITION	$656,700	$533,367	$355,020	$178,347
46	ARSENAL SA FRANKTON FS&LA	ACQUISITION	$197,000	$40,000	$37,800	$2,200
47	BUTTERFIELD FS&LA	ACQUISITION	$541,300	$281,100	$76,670	$204,430
48	DELTA SVGS OF TEXAS GUARANTY FS&LA FIRST FS&LA	ACQUISITION	$3,190,200	$1,489,130	$291,440	$1,197,690
49	CREDITBANC SA FRANKLIN SA GREAT WEST SB	ACQUISITION	$1,184,400	$999,545	$324,396	$675,149
50	UNITED SA OF CENT. IND.	ACQUISITION	$60,800	$9,300	$4,840	$4,460
51	CITIZENS FS&LA	ACQUISITION	$53,600	$5,400	$6,090	($690)
52	ADOBE SB	ACQUISITION	$47,000	$2,900	$412	$2,488
			$29,967,970	$17,878,624	$7,968,405	$9,910,219
	* LIQUIDATIONS *					
53	FIRST SA OF EAST TX	LIQUIDATION	$62,900	$86,700	$87,990	($1,290)
54	TERRITORY S&LA	LIQUIDATION	$37,800	$52,000	$46,190	$5,810
55	CITIZENS S&LA	LIQUIDATION	$150,000	$135,000	$141,270	($6,270)
56	MT. WHITNEY S&LA	LIQUIDATION	$34,000	$46,400	$46,380	$20
57	RAMONA FS&LA	LIQUIDATION	$45,000	$76,300	$76,340	($40)
58	FIRST FS&LA	LIQUIDATION	$130,000	$52,300	$52,340	($40)

FSLIC ASSISTED TRANSACTIONS
TO MERGE OR CLOSE PROBLEM INSTITUTIONS
FROM JANUARY 1, 1988-THROUGH SEPTEMBER 30, 1988

(Unaudited)
(All figures in thousands)

TRANS #	FAILED ASSOCIATION	TYPE OF ACTION	TOTAL ASSETS AT DATE OF FSLIC ACTION	REPORTED COST TO FSLIC	PROJECTED COST AT 12/31/87 ##	INCREASE/ (DECREASE) OVER PROJECTED COST
59	INVESTORS S&LA UNITED S&LA	LIQUIDATION	$167,600	$76,300	$84,850	($8,550)
60	FIRST FS&LA	LIQUIDATION	$128,780	$138,200	$29,880	$108,320
61	AMERICAN FS&LA	LIQUIDATION	$164,400	$67,200	$32,630	$34,570
62	CARDINAL SB	LIQUIDATION	$93,800	$34,400	$25,622	$8,778
63	LARUE FS&LA	LIQUIDATION	$13,100	$6,600	$5,110	$1,490
64	VICTOR S&LA	LIQUIDATION	$230,000	$241,000	$124,850	$116,150
65	THE AMERICAN FS&LA	LIQUIDATION	$70,400	$106,900	$71,690	$35,210
66	UNIVERSAL SA	LIQUIDATION	$54,800	$10,800	$29,780	($18,980)
67	NORTH AMERICAN S&LA	LIQUIDATION	$98,200	$133,000	$66,170	$66,830
68	AMER. DIVERSIFIED SB	LIQUIDATION	$509,000	$798,000	$631,170	$166,830
69	FARMERS FS&LA	LIQUIDATION	$181,500	$198,900	$119,940	$78,960
70	ULTIMATE SB, FSB	LIQUIDATION	$192,500	$55,700	$0	$55,700
71	PEOPLES S&LA	LIQUIDATION	$21,500	$15,700	$8,340	$7,360
			$2,385,280	$2,331,400	$1,680,542	$650,858
	** TOTAL **		$32,353,250	$20,210,024	$9,648,947	$10,561,077

Represents either amount accrued or negative tangible net worth at 12/31/87

Source: FSLIC Records

ATTACHMENT II

ATTACHMENT II

ESTIMATED COSTS OF
SOUTHWEST PLAN RESOLUTIONS ACTIONS
THROUGH SEPTEMBER 30, 1988
(Unaudited)

ACQUIRER	ESTIMATED COST OF ASSISTANCE AGREEMENTS (PRESENT VALUE)	PRESENT VALUE BASIS @					
		CASH	NOTES (PRINCIPAL)	NOTES (INTEREST)	CAPITAL LOSS COVERAGE	YIELD SUBSIDY	OTHER **
COASTAL BANC SA	$146,226	$3,627	$12,584	$22,569	$52,001	$52,888	$2,557
SOUTHWEST SA	$1,980,323		$219,637	$290,136	$817,137	$653,413	
MERABANK FSB	$665,655		$69,122	$96,177	$291,277	$215,326	($6,247)
GIBSON GROUP, INC.	$1,313,780		$197,393	$297,739	$317,319	$481,404	$19,925
SUNBELT SA	$6,166,637		$918,691	$1,492,472	$1,721,533	$2,033,941	
PULTE DIVERSIFIED CO.	$1,090,233		$191,189	$330,929	$238,959	$335,846	($6,690)
TEMPLE-INLAND	$1,409,130		$253,385	$426,691	$329,844	$540,300	($61,090)
CLUB CORPORATION	$999,545		$98,766	$164,138	$294,455	$446,061	($3,875)
TOTAL	$13,851,529	$3,627	$1,960,767	$3,120,851	$4,062,525	$4,759,179	($55,420)

** "Other" column includes mark to market adjustments, prepayment penalties on FHLB advances and projected future income from FSLIC ownership interests and return of tax benefits.

@ All figures in thousands.

ESTIMATED COSTS OF
SOUTHWEST PLAN RESOLUTIONS ACTIONS
THROUGH SEPTEMBER 30, 1988
(Unaudited)

ACQUIRER	ESTIMATED COSTS OF ASSISTANCE AGREEMENTS (CASH BASIS)	CASH BASIS #					
		CASH	NOTES (PRINCIPAL)	NOTES (INTEREST)	CAPITAL LOSS COVERAGE	YIELD SUBSIDY	OTHER **
COASTAL BANC SA	$237,225	$3,627	$32,639	$35,041	$112,752	$61,870	($8,704)
SOUTHWEST SA	$3,521,024		$569,682	$450,050	$1,738,990	$762,302	
MERABANK FSB	$1,241,227		$187,602	$153,658	$662,206	$257,014	($19,253)
GIBSON GROUP, INC.	$2,379,171		$535,743	$472,633	$752,155	$617,277	$1,363
SUNBELT SA	$11,509,284		$2,459,761	$2,383,834	$4,061,931	$2,603,758	
PULTE DIVERSIFIED CO.	$1,993,689		$511,840	$526,547	$562,961	$429,733	($37,392)
TEMPLE-INLAND	$2,808,221		$710,146	$681,456	$804,641	$700,065	($88,087)
CLUB CORPORATION	$1,620,461		$264,443	$258,962	$538,782	$571,406	($13,132)
TOTAL	$25,310,302	$3,627	$5,271,856	$4,962,181	$9,234,418	$6,003,425	($165,205)

** "Other" column includes mark to market adjustments, prepayment penalties on FHLB advances and projected future income from FSLIC ownership interests and return of tax benefits.

All figures in thousands.

Source: FSLIC Records

CAPITAL CONTRIBUTIONS AND COSTS OF ACTIONS
UNDER THE SOUTHWEST PLAN
THROUGH SEPTEMBER 30, 1988
(Unaudited)
(all figures in thousands)

ACQUIRER	THRIFTS ACQUIRED	ACQUIRER CONTRIBUTION	FSLIC ASSISTANCE	TOTAL ASSETS OF ACQUIRED ASSOCIATIONS	FSLIC COST AS A PERCENT OF ASSETS
COASTAL BANC SA	ALLIANCE S&LA COLORADO COUNTY FS&LA SECURITY S&LA CAMERON COUNTY SA	$3,500	$146,226	$455,800	32.08%
SOUTHWEST SA	LAMAR SA CITY S&LA STOCKTON SA BRIERCROFT SA	$25,000	$1,980,323	$3,998,400	49.53%
MERABANK FSB	BROWNFIELD FS&LA FIRST FINANCIAL STATE FS&LA OF LUBBOCK	$20,000	$665,655	$824,000	80.78%
GIBSON GROUP, INC.	IRVING SA LONGVIEW S&LA GLADEWATER FS&LA RICHARDSON S&LA MAJESTIC SA COMMERCE FS&LA PARIS S&LA AMERICAN BANC SA SKYLINE SA BEN MILAM S&LA MERCURY SA SOUTHLAND SA	$40,000	$1,313,780	$2,217,200	59.25%
SUNBELT SA	SUNBELT SA INDEPENDENT AMERICAN SA SUMMIT SA WESTERN FS&LA TEXANA S&LA FEDERATED S&LA FIRST CITY SA MULTIBANC SA	$0	$6,166,637	$4,826,300	127.77%

CAPITAL CONTRIBUTIONS AND COSTS OF ACTIONS
UNDER THE SOUTHWEST PLAN
THROUGH SEPTEMBER 30, 1988
(Unaudited)
(all figures in thousands)

ACQUIRER	THRIFTS ACQUIRED	ACQUIRER CONTRIBUTION	FSLIC ASSISTANCE	TOTAL ASSETS OF ACQUIRED ASSOCIATIONS	FSLIC COST AS A PERCENT OF ASSETS
PULTE DIVERSIFIED	ALLENPARK FS&LA BAY CITY FS&LA GULF COAST S&LA HEIGHTS SA, FSB CHAMPION SA	$45,000	$1,090,233	$1,345,700	81.02%
TEMPLE-INLAND	DELTA SVGS OF TEXAS GUARANTY FS&LA FIRST FS&LA	$128,000	$1,489,130	$3,190,200	46.68%
CLUB CORPORATION	CREDITBANC SA FRANKLIN SA GREAT WEST SB	$25,000	$999,545	$1,184,400	84.39%
		$303,300	$13,851,529	$18,042,000	76.77%
		2.14%	97.86%		

Source: FSLIC Records

Chairman CHILES. Mr. Ely.

STATEMENT OF BERT ELY, ELY & COMPANY, INC., ALEXANDRIA, VA

Mr. ELY. Thank you, Mr. Chairman.

Gentlemen, I thank you for inviting me to testify at this hearing today, because I think these are very significant issues that we are facing.

My prepared testimony reviews the causes of the FSLIC problem, some of which have developed over the last half-century. I will not dwell on these causes at this point in time, except to say that FSLIC's problems are not of a transitory nature.

I'll turn to page 7 of my testimony to touch on aspects of the size of the FSLIC problem.

In my opinion, FSLIC clearly is insolvent. The only question is how deep is the hole. There are two components to FSLIC's insolvency. One is the net worth deficit of FSLIC itself, including the bonds that have been issued by the Financing Corporation, or FICO, and the other is the present value of the cost of resolving the remaining thrifts that are still operating in an insolvent condition.

My estimate is that FSLIC's net worth deficit today, excluding its allowance for anticipated losses in unresolved cases, most likely is in the range of $16 to $18 billion.

I previously estimated that FSLIC faced prospective insolvency losses in insolvent thrifts as of the end of 1987 of $64 billion. Separately, I have developed a rough estimate that FSLIC's accumulated insolvency loss is growing or compounding at an annual rate of 15 percent, or about $10 billion annually.

This compounding rate reflects several factors, including the cost of funding the FSLIC deficit, the cost of raising the deposits that are funding it, and also the continuing asset deterioration in the insolvent thrifts.

There has been major offset to the growth of FSLIC's prospective loss in unresolved thrifts, and that is the substantial amount of losses that FSLIC has shifted onto its own balance sheet in the last 2 months as a result of its numerous case resolutions in which it has issued its notes and assistance agreements. It appears that FSLIC has shifted at least $15 billion of losses from the thrift industry onto its own balance sheet in the last 2 months.

Taking all of these factors into account, I estimate that the combined amount of FSLIC's deficit net worth, excluding its allowance for anticipated losses in unresolved cases, plus the cost of resolving insolvent thrifts currently in operation, is approximately $70 billion today, plus or minus $5 billion.

This is a present-value cost estimate. In effect, if Congress could write a check today for $70 billion to clean up the FSLIC problem, this is the amount that would be needed to take care of all of FSLIC's obligations.

In a larger sense, though, the size of the FSLIC hole is no longer very relevant, since taxpayer dollars will have to fill most of it. In my opinion, a maximum of $20 to $25 billion of FSLIC's clean-up costs could be borne by non-taxpayer sources.

The Bank Board's own figures show that a punitive extraction of resources from the thrift industry over the next 10 years would solve only $25 or $26 billion of FSLIC's existing problems. This is $5 to $6 billion less than the Bank Board's July 7, 1988, estimate that FSLIC's insolvencies could be resolved for $30.9 billion. Thus, the American taxpayer today is liable for at least $45 to $50 billion to pay for FSLIC's losses and even more than that if Congress decides not to destroy America's healthy banks and thrifts while cleaning up the FSLIC mess.

Whatever the price tag is today, it will be higher tomorrow.

I will now turn to page 15 of my testimony to review very briefly some insights that I have into FSLIC's problems and also to lay out some recommendations for near-term congressional action.

First of all, only cash will solve FSLIC's problems. In effect, FSLIC needs to spend lots of cash to solve its problems for the following reasons.

First, it is only by pumping billions of dollars of cash into insolvent thrifts that FSLIC can quickly trim the depository overintermediation problem that is plaguing all of our bank and thrift institutions and driving up FSLIC's resolution costs.

Notes and assistance agreements don't provide the cash that is needed; it takes cash itself.

In effect, cash should be raised by the Treasury to pay off higher-cost deposits that are in these insolvent thrifts. Heavy cash injections into thrifts with some core deposits would also permit the sale of shrunken thrifts instead of forcing outright liquidations of these thrifts. The sale of a shrunken thrift usually is preferable for cost reasons to an outright liquidation.

FSLIC's ability to do all-cash deals also will attract stronger buyers who understandably are leery about taking a credit risk with FSLIC debt obligations, specifically FSLIC notes, now that Congress has recently and very explicitly refused to put the full faith and credit of the United States behind these notes. In effect, these notes now have a very big, black cloud hanging over them.

FSLIC's ability to attract stronger buyers also would attract more buyers, who in turn should bid down FSLIC's resolution costs in many transactions.

Finally, all-cash deals would be simpler, faster deals than the deals now being done.

It is also important that we move very quickly in dealing with this problem. The FSLIC problem only gets worse with time, because it is compounding at a very high rate of interest—the 15 percent that I mentioned a few minutes ago.

The potential for the recovery of Texas real estate values is too much of a mirage to delay resolving insolvent thrifts, especially as many of these thrifts own or hold liens on the worst of the worst of Texas real estate.

FSLIC's insolvent thrifts can be cleaned up over the next 2 or 3 years with a very concerted effort.

It is also important not to preserve a separate thrift industry while cleaning up FSLIC. Attempting to preserve a separate thrift industry, that is, a separately regulated industry, will only add to the cost of cleaning up FSLIC while preserving an industry structure that can only lead to future problems for FSLIC or its successor.

Next, tax benefits should be considered in FSLIC transactions only where there is a net benefit for the U.S. Treasury. Because tax benefits reduce Federal revenues and thus add to the budget deficit, the importance attached to them should reflect only their net benefit for the budget deficit and not just their expenditure benefit for FSLIC.

I will close with six recommendations as to what Congress should do as soon as possible.

First, Congress should extend the full faith and credit affirmation to all future obligations FSLIC enters into, including FICO bonds and FSLIC notes and assistance agreements, in order to reduce the interest cost on these obligations. However, I view the full-faith-and-credit affirmation as merely a stopgap, money-saving measure until such time as the Congress and the next Administration can develop a comprehensive, cash-intensive program for cleaning up the FSLIC mess.

It is neither necessary nor desirable, however, to retroactively extend the full faith and credit affirmation to FSLIC's existing debt obligations.

Congress also should not place too much comfort in any ceiling it might place on FSLIC's debt obligations. A debt ceiling, particularly a low one, effectively would be a vote of no confidence in the Bank Board. I can readily understand that lack of confidence, especially in light of the rash of dubious Southwest Plan transactions announced in recent weeks.

However, a debt ceiling can only serve to give Congress the opportunity to give frequent oversight to the FSLIC mess, which it has an opportunity to do anyway. While a low debt ceiling would force the Bank Board to come back to Congress frequently for an increase in the ceiling, I think there are more effective ways for Congress to assure itself and the American people that the FSLIC mess is being cleaned up efficiently.

Absolutely central to having a more cost-effective cleanup of FSLIC's problems is improving the process of disposing of insolvent thrifts.

Next, I would direct the FSLIC to release the entire contents of all its deposit, transfer and merger and acquisition agreements. We have heard a lot of discussion this morning about why that is necessary. These disclosures would enable the Congress and the public to better assess the quality of FSLIC-assisted transactions. Now that FSLIC effectively is spending taxpayer money, it should disclose more fully how it is spending these monies. Part of this disclosure should be a settlement sheet that quantifies very clearly all the financial aspects of a FSLIC-assisted transaction. These disclosures would reveal whether or not some of FSLIC's assistance agreements are nothing more than cost-plus arrangements that impose no risk whatsoever on acquirers of insolvent thrifts.

FSLIC also should be required to make fuller disclosures about its own financial condition and outlook. Specifically, it should publish a full set of quarterly financial statements within 30 days after the end of every quarter. It prepares monthly statements now. It certainly should be able to publish these quarterly.

FSLIC also should publish periodic estimates as to how much it thinks it will cost to resolve all of its existing or potentially insolvent thrifts. Congress and the public need better information as to how large the FSLIC problem is so that the Federal Government can develop the appropriate response to this problem.

The financial statements of the Federal Government for the fiscal years 1982 to 1988 also should be restated to reflect the build-up of FSLIC's accumulated insolvency losses over those years. This restatement would put FSLIC's losses in those fiscal years in which these economic losses actually occurred. This restatement would then eliminate the budget impact of the FSLIC bailout as an issue for Congress and the Administration when they finally come to grips with the FSLIC problem.

Finally, the Congress and the new Administration need to move aggressively, early next year, to develop a comprehensive plan for resolving the FSLIC mess and restructuring the thrift industry. Delay will only make the inevitable taxpayer bailout of FSLIC even more expensive than it already is.

Mr. Chairman, I thank you.

Senator WIRTH [presiding]. Thank you very much.

[The prepared statement of Mr. Ely follows:]

TESTIMONY BY BERT ELY

to the

COMMITTEE ON THE BUDGET

of the

UNITED STATES SENATE

on the subject of

CURRENT CONDITIONS IN THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

October 5, 1988

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CURRENT CONDITIONS IN THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

by Bert Ely

I - INTRODUCTION

Mr. Chairman and members of the committee, I am testifying today regarding current conditions in the Federal Savings and Loan Insurance Corporation (FSLIC). My testimony will cover factors leading to the decline of the savings and loan or thrift industry, the Federal Home Loan Bank Board's efforts to resolve the thrift crisis, the prospective costs to the Federal Treasury in the forthcoming bailout of FSLIC, and some recommendations for near-term congressional action on dealing with the FSLIC mess.

Mr. Chairman, I want to commend you for calling this hearing since the resolution of the FSLIC mess clearly will have a significant budget impact in the very near future. It is not too early for the money committees of the Congress to begin addressing this budget impact since Congress almost surely will have to act next year to start resolving the FSLIC mess in a manner that will be cost effective to the American taxpayer.

II - CAUSES OF THE FSLIC BANKRUPTCY

FSLIC's woes have many causes, several of which date back more than half a century. I will summarize these causes in this section of my testimony.

Inherently weak financial structure of thrifts. A fundamental cause of the FSLIC problem is the borrow short-lend long philosophy of savings institutions that post-war federal policies further encouraged. That is, short-term deposits are used to fund long-term, fixed-rate mortgages. This maturity or repricing mismatch will work just fine as long as interest rates are stable or can be controlled. But when rates can no longer be controlled, then this mismatch can quickly lead to widespread thrift insolvencies during a period of rapidly rising interest rates, as the American economy experienced from 1979 into the early 1980s. Thus, FSLIC's present woes partially reflect the inherently unsound financial structure of the traditional thrift institution.

Federally sponsored secondary market agencies undercut thrift profitability. The ability of thrifts to profit from the interest rate mismatch incorporated in the borrow short-lend long structure of thrifts has been undermined over the last two decades by the emergence of the secondary markets for home mortgages fostered by three federal or federally sponsored agencies: the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Corporation (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). The effect of these agencies has been to reduce interest rates on fixed rate home mortgages. But, because of their federal guarantee, in the case of Ginnie Mae, or their federal agency status, in the case of Fannie Mae and Freddie Mac, these agencies can borrow at a lower cost or they can create a readily accepted guarantee of prompt payment of mortgage principal and interest at a lower cost than can private sector thrifts such as those insured by FSLIC. Thus, one set of federal housing assistance programs, the three secondary market agencies, has reduced the profitability of another aspect of federal support for housing, the thrift industry, by undercutting the industry's financial strength. Therefore, the supposedly costless benefit of federal sponsorship for the secondary market agencies has in fact greatly contributed to the eventual taxpayer cost of bailing out FSLIC.

Technology is further undercutting the ability of thrifts to profit from interest rate mismatches. Rapidly advancing electronic technology, specifically computers and telecommunications, has greatly advanced financial technology in the last decade. Financial technology permits the securitization of long-term debt instruments, such as home mortgages, which in turn permits the application of sophisticated risk-controlled arbitrage techniques that more efficiently, i.e more cheaply, neutralize interest rate swings than can be cushioned by the equity capital base of a traditional thrift institution. To a great extent, this efficiency has been achieved by matching the interest rate maturity of particular segments of a home mortgage with investors who seek investments of that maturity.

The absence of prepayment penalties in home mortgages has further sharpened the ability of these emerging financial technologies to more efficiently intermediate savings into home mortgages over a wider range of interest rates than can the traditional thrift. The federal secondary market agencies have abetted Wall Street in developing these financial technologies by providing the raw material, i.e. securitized fixed-rate mortgages, for the multi-tranche financial products created and sold by the investment banking community. A paper I presented at the Conference on Bank Structure and Competition sponsored by the Federal Reserve Bank of Chicago on May 13 of this year explores the impact of electronic and financial technology on financial service providers. This paper is titled: "Technology, Regulation and the Financial Services Industry in the Year 2000."

The adjustable-rate mortgage (ARM), seen by many as the financial savior for the traditional thrift, really only benefits those well-managed thrifts that operate very efficiently and are able to raise deposits at interest rates below those paid by many thrifts today. Aggressive competition to originate ARMs, the teaser rates used to promote ARMs, and the interest institutional investors are beginning to show in securitized ARMs have squeezed out much of the profit initially anticipated for ARMs.

Thus, FSLIC's problems partially reflect the rapidly changing electronic and financial technologies that, fostered by the federal secondary market agencies, have undercut the financial viability of what often are the high-cost mortgage providers: the traditional thrift. In industries where a major class of creditor is not protected by the federal taxpayer, capital losses incurred in phasing out older, less efficient technologies are borne first by stockholders and then by creditors. Since the taxpayer stands in the shoes of most thrift creditors, i.e. the depositors protected by FSLIC, the public sector will shortly bear the cost of phasing out or at least reducing the role of an older mortgage financing technology. It is ironic that the federal secondary market agencies have accelerated the decline of the older, yet fundamentally unsound housing finance technology.

Five more specific sets of public policy failures have further added to FSLIC's woes. The interaction of these five sets of specific public policies has created a greenhouse effect in which fraud, greed and mismanagement have flourished. Put another way, the extensive criminality and gross mismanagement within the thrift industry is a natural and predictable consequence of these five public policy failings and not the root cause. I do not wish to excuse this behavior; I am merely explaining why it has occurred. There is no way the aberrations that have occurred in the thrift industry would have been tolerated outside this greenhouse. While the thrift industry faces decline and decimation in any event, these public policy failings have materially accelerated this process and, what is worse, greatly added to the cost of the forthcoming taxpayer bailout of FSLIC.

Appendix 1 discusses these five specific sets of public policy failings in detail; I will describe them here briefly:

> One - An inherently flawed and actuarially unsound federal deposit insurance mechanism has been a root cause of FSLIC's insolvency. Little wonder then that FSLIC, and the FDIC for that matter, suffer large losses when the drunk drivers of the banking and thrift worlds pay the same price for their deposit insurance as do their sober brethren. Actuarially sound deposit insurance would have charged increasingly higher rates as the federal secondary market agencies and changing technology reduced the traditional mismatch profit thrifts earned on fixed-rate mortgages. This would have encouraged thrifts to move away from maturity mismatching long before they did. More fundamentally, the existence of federal deposit insurance reflects the startling failure of the capitalist economies of the world to create a mechanism that imposes all bank and thrift insolvency losses on private sector equity capital under all economic conditions.
>
> Two - Federal inaction has allowed FSLIC's accumulated insolvency losses to grow at an ever faster rate. Consequently, a substantial portion of FSLIC's accumulated insolvency loss of $70 billion is due solely to federal inaction. Had Congress and the Administration moved aggressively at any time during the 1980s to quickly close realistically insolvent thrifts, the worst would have been

behind us, and at a much lower cost. Instead, these insolvency losses are now compounding in the private sector at very high rates of interest. In effect, the federal government has privatized a not insignificant portion of the national debt.

Three - Long-standing intra- and interstate branching restrictions have prevented individual depository institutions from spreading their lending risks across broad regions or the entire country. Because of these restrictions, large loan losses are being absorbed by FSLIC and FDIC instead of by the stockholders of geographically widespread firms. Geographical risk dispersion still provides one of the most effective ways to protect a depository institution from becoming insolvent.

Four - Numerous regulatory and monetary policy failures over the years have greatly exacerbated FSLIC's past and prospective losses. The Fed's Regulation Q control of deposit interest rates shares the blame along with more recent regulatory laxity and ineptness. The many forms of capital forbearance granted by the Bank Board since 1980 are the most notable examples of recent regulatory failure.

Five - Other federal policies also worsened the economic environment for both banks and thrifts by encouraging investors and entrepreneurs to make economically unsound decisions. In particular, specific tax, energy, and agricultural policies led directly to subsequent investment and lending decisions that are bringing a great deal of grief to both FSLIC and FDIC today.

With regard to federal deposit insurance, it is important to understand how expensive it has become for our economy in recent years. Appendices 2 and 3 compare reported federal deposit insurance fund losses for the 1978 to 1987 period with losses suffered by depositors in failed banks and thrifts between 1922 and 1933. Appendix 2 relates losses to GNP while Appendix 3 relates losses to total deposits.

As you will note, reported losses in 1984 and 1985 equalled the highest levels reached at any time during the 1920s. The losses in 1986 and 1987 reached depression era levels. The enormous losses in 1986 and 1987 occurred largely because of FSLIC's addition to its estimated contingent liability, or reserve for future losses. These reported losses in 1987 were three and one-half times the amount of the deposit insurance premiums paid by the nation's depository institutions. This year promises a repeat of the 1986 and 1987 loss experience. If FSLIC and FDIC properly accounted for their known future losses, the 1978-87 line in Appendices 2 and 3 would be much higher.

What is especially disturbing is that these losses are occurring under much more favorable economic conditions than we experienced during the Great Depression. Unlike the losses of the early 1930s, which reflected almost entirely the price deflation of that era, today's losses to a great extent reflect a real waste of economic resources. We see this in the vast overbuilding of real estate that occurred after the disinflationary forces of the early 1980s were unleashed. We also see this in the unnecessary operating costs incurred by the entire banking system as a result of overintermediation.

Although federal deposit insurance ended the randomness with which depositors suffered losses, this equity has been achieved at a large and unnecessary cost to our economy. Thus, any effective and permanent resolution of the FSLIC problem must encompass a fundamental restructuring of the depositor protection mechanism. This restructuring must seek to lower the waste of real economic resources we have experienced in recent years while protecting both depositors and taxpayers from private sector insolvency losses. Resolving the FSLIC situation without confronting its causes will be both tragic and an enormous waste of effort and future economic resources.

Depository overintermediation is yet another contributing factor to the FSLIC problem. I am addressing this concept because it offers important insights into both the causes and the resolution of the FSLIC crisis.

What is overintermediation? Overintermediation occurs when excess deposits flow through the nation's depository institutions, be they banks, savings and loans, credit unions, or money market mutual funds. That is, various economic forces act to pull more deposits into depository institutions than would be the case under more normal circumstances. Overintermediation is part of the broader and more widely recognized problem of an excess number of banking organizations and branches.

Overintermediation is occurring today because actuarially unsound federal deposit insurance has distorted the pricing of both deposits and loans. Because risky institutions do not pay enough for their federal deposit insurance, they can bid up deposit rates and still generate what appears to be an adequate net interest margin. Healthier institutions naturally respond by matching the rates offered by their riskier brethren. They do this to hold on to their increasingly important market share. This competition consequently pulls more funds through depository institutions than otherwise would be the case.

Overintermediation, like overcapacity in any industry, can have adverse, if not readily visible, consequences for an entire industry. In the case of federally insured depository institutions, these adverse consequences will cost the taxpayer money if deposit insurance losses cannot be totally funded by depository institutions.

Overintermediation causes three specific problems which plague all depository institutions, and not just the failing institutions:

One, it lowers net interest rate margins on both sides of the equation. Competition to attract or retain deposits drives up the interest rates paid on deposits. This, in turn, pulls in deposits that otherwise would be invested elsewhere in the economy. Driving this competition are the scores of cash flow insolvent thrifts that must bring in new deposits or hang on to existing ones in order to pay their bills. This process essentially is nothing more than a government-sanctioned Ponzi scheme. We see this clearly by contrasting the Texas thrifts with the relatively less desperate Texas banks. During 1987, Texas thrifts increased their deposits by 6.1%, or $4.9 billion, and boosted their borrowings by 32%, or $4.7 billion. At the same time, Texas banks reduced their deposits by 8.4%, or $13.8 billion.

The resulting excess of lendable funds then leads banks and thrifts to lend at lower interest rates as they scramble harder to lend out their deposits. These lower rates may be a short-term benefit for borrowers, but the long-term hangover for the economy does not make them worthwhile. The growth in securitization, especially the mortgage securitization I discussed above, is adding to this problem by reducing lending opportunities for banks and thrifts at a time when lendable funds are increasing.

Two, by chasing ever scarcer lending opportunities, excess lendable funds lead to looser lending standards. We may be planting the seeds today that will bring new credit problems to the banking world in the early 1990s. Problems could arise in home equity and commercial real estate lending, credit card receivables, or leveraged buyout loans, to name just a few.

Three, these forces lead to lower profit margins that make it difficult to attract new capital to the banking and thrift industries. This is occurring at a time when both banks and thrifts are under increasing pressure to raise their capital levels. Thus, overintermediation also can retard much needed banking innovation.

If overintermediation persists, it may have the Gresham's Law effect of driving out the better managed banking capital, due to low returns earned on that capital, while leaving behind less well-managed and rapidly eroding capital resources.

Overintermediation also harms the value of marketplace franchises. Thus, we may see an effect comparable to what the strong dollar did to American manufacturers earlier in this decade. This could lead to a permanent loss of domestic market share to foreign-domiciled banking organizations. The recent rapid growth in American business lending by foreign banks indicates that this process is already well underway.

Testimony I presented to the Senate Banking Committee on May 19 on the overall condition of the thrift industry presents data documenting the overintermediation problem. This testimony can be found on page 138 in "Oversight on the Condition of the Financial Services Industry," Senate Hearing 100-735.

III - FSLIC'S ACCUMULATED LOSSES

The depth of the FSLIC hole. FSLIC clearly is insolvent; the question today is how deep is the FSLIC hole? There are two components to FSLIC's insolvency. One component is the net worth deficit of FSLIC itself, including the bonds issued by the Financing Corporation (FICO). The other component is the present value of FSLIC's eventual cost of resolving its remaining thrift insolvencies.

> The FSLIC component: FSLIC's net worth deficit at July 31, 1988, the most recent date for which I have FSLIC's balance sheet, was $1.5 billion. This amount excludes FSLIC's allowance for anticipated losses in unresolved cases; however, it does include $2.9 billion in outstanding FICO bonds. FSLIC's net worth deficit today, again excluding its allowance for anticipated losses in unresolved cases, is most likely in the range of $16-$18 billion given the enormous amount of notes and assistance agreements FSLIC has issued since July 31.
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> The insolvent thrift component: I previously have estimated that FSLIC faced prospective losses at the end of 1987 of $64 billion in the insolvent thrifts it insured. These are losses FSLIC would have incurred at the end of 1987 had it been able to transfer its liability to FSLIC-insured depositors to a third party on December 31, 1987. This present value estimate was based on year-end 1987 data for FSLIC-insured thrifts. The technique I used in preparing this $64 billion estimate is described in an attachment to an August 8, 1988, letter I sent to Senator William Proxmire, Chairman of the Senate Banking Committee. That letter will be found on page 529 of the record of the Banking Committee's May 19, 1988, hearings. I anticipate completing by the end of this month a present value estimate, as of June 30, 1988, of FSLIC's prospective loss in unresolved thrift insolvencies.

The rate at which FSLIC's losses are growing. Separately, I have developed a rough estimate that FSLIC's accumulated insolvency loss is growing, or compounding, at the annual rate of 15%, or approximately $10 billion annually. I set out the basis for this estimated compounding rate in my May 19 testimony to the Senate Banking Committee. Briefly, this compounding rate reflects four factors: the interest cost for funding the deficit net worth of the insolvent thrifts; the expenses incurred in raising the deposits funding the deficit net worth; continued asset deterioration in the insolvent thrifts; and the wealth transfer to depositors that occurs when insolvent thrifts pay above-market interest rates on their deposits (this wealth transfer effect was not explicitly discussed in my May 19 testimony).

A major offset to the growth of FSLIC's prospective losses in unresolved thrift insolvencies is the substantial amount of these losses that FSLIC has shifted onto its own balance sheet in the last two months as a result of its numerous case "resolutions" in which it has issued FSLIC notes and assistance agreements. Based on data presented in the third paragraph above, it appears that FSLIC has shifted $14.5-16.5 billion of losses from the thrift industry to its own balance sheet in just the last two months.

Taking all of these factors into account, I estimate that the combined amount of FSLIC's deficit net worth, excluding its allowance for anticipated losses in unresolved cases, plus the cost of resolving insolvent thrifts currently in operation, is approximately $70 billion today, plus or minus $5 billion. This is a present value loss estimate. In effect, Congress would have to write a $70 billion check today to clean up the FSLIC mess. I would hope by the end of this month that I can offer a more precise estimate of FSLIC's overall loss situation.

The relevancy of FSLIC's accumulated insolvency loss. In a larger sense, though, the size of the FSLIC hole is no longer very relevant since taxpayer dollars will have to fill most of it. In my opinion, an absolute maximum of $20-$25 billion of FSLIC's cleanup cost can be borne by non-taxpayer sources without causing even greater problems among our financial institutions. The Bank Board's own figures show that a punitive extraction of resources from the thrift industry over the next ten years will solve only $25-$26 billion of FSLIC's existing problems. This is $5-$6 billion less than the Bank Board's July 7, 1988, estimate that FSLIC's insolvencies could be resolved for $30.9 billion. The attached Appendix 4 is a present value analysis of the cash flow forecast Bank Board Chairman M. Danny Wall submitted to the House Banking Committee on July 7. A copy of this July 7 forecast is attached to Appendix 4. This appendix discounts only those FSLIC cash flows that will compensate for negative net worths in insolvent thrifts.

Thus, the American taxpayer today is liable for at least $45-$50 billion to pay for FSLIC's losses and even more than that amount if Congress decides not to destroy America's healthy banks and thrifts while cleaning up the FSLIC mess. Whatever today's price tag, tomorrow's will be even higher.

The Congress can avoid a taxpayer bailout of FSLIC only by reneging on its full-faith-and-credit affirmation of deposits in FSLIC-insured thrifts. However, this would be political suicide for the Congress as backing away from this affirmation would quickly destroy the entire American financial system. Therefore, whether the FSLIC cleanup bill is $40 billion, $60 billion, or

$80 billion, the American taxpayer is eventually going to pay the next dollar and every future dollar of this cleanup cost. This is why Congress should be working today, tomorrow, next week, and beyond to minimize the cost of eliminating FSLIC's insolvent institutions.

It is important to remember, though, that a taxpayer bailout of FSLIC is not a bailout of the failing thrifts -- they are gone anyway -- nor is it a bailout of the healthy thrifts -- they now pay far too much for their deposit insurance. Instead, a taxpayer bailout of FSLIC will be the bailout of a pledge Congress first made in 1982 to support, through times of inflation and deflation, an actuarially unsound depositor protection mechanism.

Problems in estimating the depth of the FSLIC hole. Everyone involved in the FSLIC situation, including FSLIC, is experiencing great difficulty in estimating how big the FSLIC problem is. There are two reasons for this: one controllable and one not.

The uncontrollable reason is that the complexity of the FSLIC situation, coupled with an inability to predict the future, makes estimating the size and scope of the FSLIC problem difficult under the best of circumstances.

The controllable reason is FSLIC, or rather the Bank Board. With full disclosure and cooperation by the Bank Board, it would be possible for all concerned, including the Congress, the Administration, and the private sector, to reasonably estimate the size of the FSLIC problem and the rate at which that problem is worsening. There are several ways in which the Bank Board seriously impedes analysis and understanding of the FSLIC problem.

> One, the Bank Board does not publicly disclose a majority of the data items it collects on individual thrifts. This nondisclosure policy contrasts sharply with the practice of the banking regulators to publicly disclose substantially all data contained in bank call reports. This non-disclosure policy makes it very difficult for analysts outside the Bank Board to accurately assess the financial condition of individual thrifts and particularly the susceptibility of these thrifts to interest rate fluctuations. This assessment is essential to measuring the size of the FSLIC problem.
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> Two, the Bank Board does not publish FSLIC's financial statements on a sufficiently frequent basis. The primary information readily available on FSLIC are its annual financial statements audited in a very tardy fashion by GAO. For example, GAO's transmittal letter on FSLIC's 1987 financial statements is dated July 5, 1988. Also available, but hard to obtain, is a very sketchy quarterly report of FSLIC's cash receipts and expenditures which is required by the Competitive Equality Banking Act of 1987.

Thus, FSLIC analysts must resort to analyzing FSLIC news releases and surreptitiously obtaining FSLIC's monthly internal financial statements in order to develop even rough approximations of FSLIC's current financial condition.

Problems in assessing FSLIC's cost of resolving insolvent thrifts. FSLIC unnecessarily complicates any external assessment of the costs it incurs in disposing of insolvent thrifts by failing to disclose the terms of the notes and assistance agreements into which it has entered with acquirers of insolvent thrifts. Thus, there is no opportunity for Congressional or public scrutiny of FSLIC's forecasts of interest rates, the recovery of property values, and whatever other assumptions FSLIC is factoring into its calculation of the present value of its assistance agreements. While hopefully the GAO scrutinizes these forecasts when it audits FSLIC's recorded liability under these agreements, public scrutiny of these forecasts would be much more rigorous.

Attached as Appendix 5 is an analysis of Attachment II to the testimony dated September 8, 1988, that GAO submitted to the House Banking Committee. The GAO attachment, which draws directly from FSLIC computer printouts, highlights the apparent inconsistencies in the Bank Board's calculation of the present value of notes and assistance agreements it has issued in six Southwest Plan transactions. Some examples will illustrate these inconsistencies:

- The imputed discount rate (column 2) appears to approximate the current yield on FICO bonds rather than the yield on Treasury debt.

- The present value of interest paid on FSLIC notes as a percentage of the cash interest paid (column 4) fluctuates within a much tighter range than the cash interest paid as a percentage of the face value of notes (column 3) even though all the notes supposedly mature in ten years and even though the imputed interest rate paid on those notes (column 5) does not vary greatly.

- The imputed interest rate paid on FSLIC notes (column 5) is quite high relative to the interest rates suggested in the Bank Board's news releases.

- The capital loss coverage anticipated in these deals is quite high relative to the yield subsidy (see the GAO's Attachment II for this contrast). Thus, the average life of the yield subsidy (column 10) seems exceedingly short relative to the expected number of years in the future when capital loss coverage will be paid (column 7). Column 10 taken as percentage of column 7 is shown in column 11. The estimated capital losses shown in the GAO's Attachment II also seem to anticipate little, if any, recovery in Texas property values.

These inconsistencies suggest the following:

One, FSLIC may be materially misestimating the cash costs of resolving its problems, specifically that portion of the resolution cost covered by assistance agreements.

Two, FSLIC may be entering into badly structured note and assistance agreements that are unnecessarily costly to FSLIC because FSLIC's computer models are flawed. The probability of this occurring would be quite high if FSLIC is negotiating its transactions based on the data that appears in the GAO's Attachment II.

Three, FSLIC is using an incorrect discount rate in calculating the present value of its projected future cash outlays. The discount rate used by FSLIC should be the current yield on short to medium term Treasury debt since that will be the cost of the debt obligations that eventually will fund most of the cost of cleaning up the FSLIC mess. Using the appropriate discount rate would raise the present value of FSLIC's existing debt obligations by $2 billion to $3 billion.

The budget impact of cleaning up FSLIC considered in a broader context. Cleaning up the FSLIC mess is generally seen as a prospective cost to the federal government and thus a prospective hit on the federal budget. In reality, though, that is not the case. FSLIC's accumulated insolvency loss, i.e. the total cost of cleaning up all of its problems today, has been building for years. Because Congress first placed the full-faith-and-credit of the United States behind the federal deposit insurance funds in March 1982, it is my opinion that the entire build-up of FSLIC's accumulated insolvency loss since that date should be considered to be part of the debt of the federal government. In other words, FSLIC's deficit has been building as a very real, albeit off-balance, liability of the federal government since 1982. Thus, recognizing FSLIC's accumulated insolvency loss today as an explicit obligation of the federal taxpayer is an action that should be viewed as a belated recognition of past events, not a prospective budgetary obligation. Instead, the challenge for the future is to minimize the size of this existing obligation while at the same time refunding it with cheaper debt issued directly by the U. S. Treasury. This would be preferable to continuing to indirectly fund this portion of the national debt with deposits raised by insolvent, expensively run thrift institutions.

There have been two components to the build-up of FSLIC's off-balance sheet liability. These components are viewed from a somewhat different perspective than the cost elements presented at the bottom of page 7. One cost is represented by the real resources wasted by the insolvent thrifts in the form of the unnecessary and wasteful construction funded by these thrifts, the unnecessary operating expenses these thrifts incurred as they expanded wildly, and the riotous living expenses of officers and directors paid for by these thrifts. The second cost is the wealth transferred to depositors in insolvent thrifts in the form of that portion of deposit interest rates in excess of market levels. In effect, this wealth transfer has been a disguised form of welfare that will be paid ultimately by the American taxpayer to the owners of these deposits.

IV - OTHER FSLIC PROBLEMS

The quality of FSLIC's case resolutions. The quality, or rather the lack of quality, of many of FSLIC's case resolutions is a very serious problem the Budget Committee should consider when assessing FSLIC's present condition and future prospects. FSLIC has a long history, dating back to 1981, of doing deals on the cheap. In the early and mid-1980s, FSLIC and admittedly willing thrift acquirers, shifted a substantial portion of the accumulated losses in insolvent thrifts onto the balance sheets of the acquiring thrifts in the form of goodwill. This goodwill was then to be amortized over many years of future earnings. Goodwill also arose through "push down" accounting in mutual-to-stock conversions of thrifts. Push-down accounting buried the market value losses of mortgage portfolios in the goodwill of the converted thrifts. These abuses of generally accepted accounting principles (GAAP) bought time for some thrift managements and conserved FSLIC's cash resources; however, it left a thrift industry saddled today with over $25 billion of goodwill, an amount equal to approximately 80% of the entire thrift industry's net worth, measured on a GAAP basis. Many of the thrifts burdened with this goodwill, as well as those with regulatory capital artificially inflated by appraised equity capital, deferred losses, subordinated debt, and the like, have since failed or are likely to fail in the future, in large part because they have insufficient interest-earning assets relative to their interest-bearing liabilities.

This artificial capital was created by accounting techniques for just one reason: FSLIC has not been able, and Congress has been unwilling to provide, sufficient loss coverage that would enable FSLIC to do "real deals" in resolving all of its problems. Real deals occur only when the acquirer of an insolvent thrift has received sufficient FSLIC assistance which, when coupled with the acquirer's own equity capital, reasonably guarantees that the acquired thrift will not be recycled through FSLIC again in a few years. Capital forbearances of many kinds, however, have permitted FSLIC to do many "phantom deals" in recent years that give only the illusion that an insolvent thrift has been successfully spun back into the private sector.

The lack of real deals has been especially noticeable under the Bank Board's "Southwest Plan." Five of these transactions, Pelican Homestead, Southwest Savings, Sunbelt Savings, the consolidation of fourteen Oklahoma thrifts into six thrifts, and Merabank's acquisition of three Texas thrifts, did not bring any new equity capital into the thrift industry. Five other Southwest Plan deals (Coastal Banc, the Gibson Group, Pulte, Temple-Inland, and Club Corporation of America), have been thinly capitalized although the level of new capital _immediately_ invested by the last two acquirers has been higher than in some of the earlier transactions.

What has been particularly disturbing about these Southwest Plan transactions is that they represent an attempt by the Bank Board to preserve the independence of the Texas thrift industry even as the Bank Board consolidates that industry. Further, these acquisitions are largely being made by newcomers to the thrift industry rather than by established bank and thrift organizations. Bank and thrift acquirers would be preferable for two important reasons:

> _One_, acquisitions of Texas thrifts by thrifts headquartered outside Texas would bring much needed geographical diversity to the thrifts operating in Texas. The lack of geographical risk dispersion among the thrifts operating in Texas is one of the key reasons why it will cost FSLIC at least $30 billion to bail out the Texas thrift industry.
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> _Two_, acquisitions of Texas thrifts by banks, both those headquartered in Texas as well as elsewhere, would bring long overdue consolidation of the banking and thrift industries, especially inside Texas where there is a surfeit of bank and thrift organizations and branches.

The lack of cash in the Southwest Plan transactions. FSLIC is not injecting sufficient cash into the Southwest Plan transactions to quickly shrink the badly bloated deposit and overall liability base of the Texas thrift industry. Instead, FSLIC has used its infamous notes and assistance agreements which together provide only enough cash to pay current, and possibly too generous, interest and operating expenses. I have demonstrated elsewhere, most recently in my September 15 testimony to the House Banking Committee, that Texas thrifts taken as a whole have excess deposits of at least $20 billion and possibly as much as $35 billion. Although deposits in Texas-based thrifts declined $34 million from the end of March to the end of July, 1988, reaching $88.426 billion, borrowings of Texas thrifts, which represent another way to keep the Texas Ponzi schemes afloat, grew $4.89 billion, or 27%, during the same four-month period. The Texas thrift industry will not return to health until its interest-bearing liability base has materially shrunk.

The excessive complexity of FSLIC's recent transactions. FSLIC's transactions in the Southwest Plan as well as elsewhere, appear to be very complex deals, burdened as they are with notes, assistance agreements contingent on future events, and tax-loss, profit- and equity-sharing arrangements. Each of these complexities increases the potential for litigation years into the future as FSLIC and the acquirers of insolvent thrifts fight over accounting issues and who owes whom how much.

Tax benefits: A figment of FSLIC's imagination. The negotiation over tax benefits is largely a spurious issue given that the federal taxpayer will eventually pay for all of FSLIC's recent as well as future losses. Tax benefits are not a free lunch; any saving on federal taxes still costs the federal taxpayer, but in the form of reduce Treasury receipts rather than higher FSLIC expenditures. From the Budget Committee's perspective, the bottom-line impact of a FSLIC transaction is substantially the same regardless of any tax "benefits" incorporated in a FSLIC transaction.

In a real sense, scrambling over the tax aspects of a FSLIC transaction may actually increase the cost of the taxpayer bailout of FSLIC, to the extent that the outcome of the transaction is economically less optimal than if the purported tax benefits were ignored. This would definitely be the case where the best acquirer of an insolvent thrift, in an economic sense, could not utilize the tax benefits as quickly as another prospective acquirer and thereby lose the deal to the other acquirer.

Texas real estate problems and FSLIC's case resolutions. The vastly overbuilt real estate situation in Texas is a problem for FSLIC, both in disposing of the Texas thrifts themselves as well as the failed non-Texas thrifts that are carrying Texas real estate loans on their books. FSLIC's problem is aggravated by the fact that, as one banker put it recently, while Texas banks are burdened by the best of the worst in Texas real estate problems, the Texas thrifts are burdened by the worst of the worst. In effect, there is a "filo" problem in Texas in that the first real estate projects to get into trouble are the last ones to get out of trouble, if they ever do.

In reality, there are two components to the Texas real estate problem:

One, Texas is loaded with overbuilt real estate: offices, stores, apartments, subdivisions, etc. Only job and population growth, and in extreme cases, demolition, will eliminate the actual overbuilt condition that exists in many Texas real estate markets. Real estate prices will be depressed as long as these overbuilt or market overhang conditions last.

Two, weak owners and/or lenders add to the price depression caused by actual overbuilt conditions because the relevant real estate marketplace is uncertain as to when weak property owners might be forced to sell their property at a "fire sale" price. This uncertainty further depresses prices as long as these weak owners and/or lenders continue to have a presence in the marketplace. Weak owners and/or lenders are property owners and developers who might be forced to sell quickly or under duress because they lack financial strength to hang onto their properties until the market overhand disappears and property values recover. Insolvent thrifts who own foreclosed property or who will be foreclosing on defaulted mortgages are in the same situation. Liquidity pressures conceivably could force a thrift to sell at a fire sale or certainly at a suboptimal price.

FSLIC has attempted to deal with this problem by using yield maintenance and capital loss coverage agreements to warehouse problem assets in acquiring thrifts. However, these cost-plus agreements do not eliminate the uncertainty caused by weak owners since FSLIC itself, as a source of the subsidy, is someone the market cannot rely on to act rationally. The strategic materials and farm commodities stockpile programs offer a confirming parallel. Whenever a government agency owns a substantial portion of a surplus commodity, i.e. the market overhang, the other market participants will be slow to drive up prices because they are always uncertain as to when the government agency, for whatever reason, will dump all or a portion of its holdings into the marketplace, thus depressing prices for everyone.

The only way FSLIC can eliminate the weak owner effect in overbuilt real estate markets is to sell real estate it owns or controls to well-capitalized private sector buyers at a realistically deep discount and without any ongoing yield maintenance or capital loss coverage agreement that could force a premature sale of the property. In effect, FSLIC's problem real estate can best be disposed of indirectly by transferring insolvent thrifts that own real estate and delinquent mortgages into the hands of well-capitalized buyers. These transfers would have to be accompanied by a sufficient cash infusion from FSLIC that would recognize the depressed value of the thrift's real estate and mortgages.

V - SOLVING FSLIC'S PROBLEMS

Only cash will solve FSLIC's problems. FSLIC needs to spend lots of cash to solve its problems for the following reasons described or alluded to above:

> One, only by pumping billions of dollars of cash into insolvent thrifts can FSLIC quickly trim the overintermediation problem that is plaguing all depository institutions and driving up FSLIC's resolution costs. The assets of the insolvent thrifts cannot be converted into cash quickly enough to pay off the maturing high-interest-rate certificates of deposit that are the source of overintermediation. Thus, cash raised by the Treasury must be used to pay off the higher cost deposits the insolvent thrifts have gathered. Getting rid of these high-rate deposits also will end the unjustified and unintended wealth transfer now flowing to these deposit holders.

Two, heavy cash injections into thrifts with some core deposits will permit the sale of shrunken thrifts instead of forcing their outright liquidation. The sale of a shrunken thrift usually is preferable to its outright liquidation for two reasons: First, a sale will capture for FSLIC whatever going concern value there might be in the thrift's core deposits and lending activities. Liquidations completely destroy that going concern value. Second, a sale will move the thrift's assets into private sector ownership which is preferable to FSLIC having to liquidate the assets of the thrift and pay off its depositors.

Three, FSLIC's ability to do all-cash deals will attract stronger buyers who are understandably leery of taking a credit risk with FSLIC debt obligations, specifically FSLIC notes, that Congress in August explicitly refused to back with the full-faith-and-credit of the United States. FSLIC's ability to attract stronger buyers also will attract more buyers, which in turn should bid down FSLIC's resolution costs in many transactions.

Four, all-cash deals will be simpler, faster deals. If the FSLIC situation is to be cleaned up quickly, individual transactions will have to be closed much more quickly than in the nine to twelve month time frame commonly reported. These also will be cleaner deals that will less likely embroil FSLIC in endless litigation years into the future.

Move quickly. The FSLIC problem only gets worse with time because it is compounding at a very high rate of interest. The potential for the recovery of Texas real estate values is too much of a mirage to delay resolving problem thrifts, especially as many of these thrifts own or hold liens on the worst of the worst of Texas real estate.

FSLIC's insolvent thrifts can be disposed of over the next two to three years, with a concerted effort. This means proceeding at a much faster pace than FSLIC has been moving until recently. However, FSLIC has demonstrated in recent months that it can dispose of thrifts at a rapid rate, admittedly in many questionable transactions. But, with sufficient cash and a commitment to do simple, quality deals, FSLIC should be able to dispose of 800 to 1,000 insolvent thrifts over the next two to three years, leaving behind only a relatively small residue of assets from liquidations or assets that could not be included in the sale of these thrifts.

Do not preserve a separately regulated thrift industry in the process of cleaning up FSLIC. Attempting to preserve a separate thrift industry will only add to the cost of cleaning up FSLIC while preserving an industry structure that can only lead to future problems for FSLIC or its successor. As a corollary, all efforts should cease to preserve the Texas thrift industry as

a free-standing set of depository institutions. Its perpetuation would be damaging both to the Texas economy and to the federal taxpayer.

Tax benefits should be considered in FSLIC transactions only when there is a net benefit to the U. S. Treasury. Because tax benefits reduce federal revenues, and thus add to the budget deficit, the importance attached to them should reflect only their net benefit on the budget deficit and not just their expenditure effect on FSLIC.

VI - RECOMMENDATIONS FOR NEAR-TERM CONGRESSIONAL ACTION

Here are six recommendations as to what Congress should do as soon as possible.

Recommendation One: Congress should extend the full-faith-and-credit affirmation to all future obligations FSLIC enters into, including FICO bonds and FSLIC notes and assistance agreements, in order to reduce the interest cost on these obligations. However, I view the full-faith-and-credit affirmation as merely a stop-gap, money-saving measure until such time as Congress and the next Administration can develop a comprehensive, cash-intensive program for cleaning up the FSLIC mess. The obligations backed by the full-faith-and-credit affirmation should be fully transferable, along with any tax benefits associated with those obligations.

Extending full-faith-and-credit to all new FSLIC obligations would help the Bank Board to attract a greater number of financially stronger buyers for insolvent thrifts until such time as adequate amounts of cash can be pumped into FSLIC. It is neither necessary nor desirable, however, to retroactively extend the full-faith-and-credit affirmation to FSLIC's existing debt obligations. Any retroactive extension of the full-faith-and-credit affirmation would generate windfall profits for those who now hold FSLIC debt without creating any offsetting gains for FSLIC. However, the Bank Board should seek to refinance outstanding promissory notes with lower cost notes backed by the full-faith-and-credit affirmation.

Recommendation Two: Congress should not place too much comfort in any ceiling it might place on FSLIC's debt obligations. A debt ceiling, particularly a low one, effectively would be a vote of no confidence in the Bank Board. I can readily understand that lack of confidence, especially in light of the rash of dubious Southwest Plan transactions announced in recent weeks. However, a debt ceiling is like a brick wall in that neither has any real effect until you crash into it. In other words, I do not believe a debt ceiling will improve the efficiency or the quality of the Bank Board's deals.

While a low debt ceiling would force the Bank Board to come back to Congress frequently for an increase in the ceiling, I think there are more effective ways for Congress to assure itself and the American people that the FSLIC mess is being cleaned up efficiently. After all, it does not appear that a constantly rising ceiling on the national debt has been very effective in holding down the government's annual budget deficits.

Absolutely central to having a more cost effective cleanup of FSLIC's problems is improving the process for disposing of insolvent thrifts. As I discussed above, we have seen a highly deficient process for dealing with problem thrifts. Improving the disposal process will accomplish far more, I believe, than setting arbitrary debt ceilings that Congress will frequently have to lift.

Recommendation Three: Direct FSLIC to release the entire contents of all of its deposit transfer and merger and acquisition agreements. These disclosures would enable the Congress and the public to better assess the quality of FSLIC's assisted transactions. Now that FSLIC effectively is spending taxpayer funds, it should disclose more fully how it is spending those monies. Part of this disclosure should be a settlement sheet that quantifies all financial aspects of a FSLIC-assisted transaction. These disclosures would reveal whether or not some of FSLIC's assistance agreements are nothing more than cost-plus arrangements that impose no risk whatsoever on acquirers.

Fuller disclosure also will help FSLIC to negotiate better deals. Many prospective acquirers currently lack sufficient data on how deals have been structured in the past so that they need to get some sense of options to consider in the offers they present to FSLIC. I was able to get the full assistance agreement in the FDIC's First City deal with a simple written request. Attached as Appendix 6 are copies of my request and the FDIC's letter accompanying the First City agreement. The Bank Board's arguments that releasing transaction agreements will give perspective buyers of insolvent thrifts an advantage over FSLIC or that proprietary information will be released do not wash. After all, what is proprietary about spending taxpayer money. Danny Wall testified to the House Banking Committee on September 8 that the Bank Board will release the full agreements for the Robert Bass acquisition of American Savings and Loan. If the Bank Board can see fit to release those agreements, it should see fit to release the agreements in all its assisted transactions.

Recommendation Four: FSLIC should be required to make much fuller disclosures about its financial condition and outlook. It should publish a full set of quarterly financial statements within thirty days after the end of every quarter. It prepares monthly statements now; it certainly should be able to publish them quarterly. Its present quarterly disclosures of receipts and expenditures, as required under section 306 (i) of CEBA, are totally inadequate.

FSLIC also should publish periodic estimates as to how much it thinks it will cost to resolve all of its existing or potentially insolvent thrifts. Congress and the public need better information as to how large the FSLIC problem is so that the federal government can develop the appropriate response to this problem.

These estimates should reflect harsh economic realities and should not be constrained by accounting data stated at book value. The detailed assumptions underlying these estimates also should be published so that Congress and the public can assess the reasonableness of these estimates. Such estimates and their underlying assumptions should periodically be reviewed for reasonableness by outside experts as well as by the GAO.

Congress also could enhance disclosure by directing the Bank Board to add a line item to the financial reports every thrift files with the Bank Board that discloses the amount of cash assistance that thrift has received from FSLIC during the reporting period. This information should then be included in the financial data on individual thrifts that the Bank Board releases to the public.

Recommendation Five: The financial statements of the federal government for fiscal years 1982-88 should be restated to reflect the buildup of FSLIC's accumulated insolvency losses over those years. This restatement would put FSLIC's losses in the fiscal years in which these economic losses actually occurred. This restatement would then eliminate the budget impact of the FSLIC bailout as an issue for Congress and the Administration when they finally come to grips with the FSLIC mess. Attached as Appendix 7 is a more complete argument for restating the government's financial statements for fiscal years 1982-88 to reflect the growth of FSLIC's insolvency over those years.

Recommendation Six: Congress and the new Administration need to move aggressively early next year to develop a comprehensive plan for resolving the FSLIC mess and for restructuring the thrift industry. Delay will only make the inevitable taxpayer bailout of FSLIC even more expensive than it already is.

Mr. Chairman, I want to thank you again for the opportunity to testify today on this most important issue.

Appendix 1

FIVE SETS OF PUBLIC POLICIES THAT HAVE MATERIALLY CONTRIBUTED TO FSLIC'S BANKRUPTCY

1 - An inherently flawed deposit insurance mechanism has been the root cause of FSLIC's accumulated insolvency losses. Federal deposit insurance is not a true insurance mechanism because it lacks risk-sensitive pricing. Its flat-rate premium actually encourages unwarranted risk-taking by both depository institutions and regulators by not discouraging unwarranted risk-taking.

2 - Federal inaction has allowed FSLIC's deficit to grow at an increasingly faster rate. As a result, this portion of the federal deficit, i.e. FSLIC's accumulated insolvency loss, continues to be "parked" off the federal balance sheet in insolvent thrifts. Unfortunately, this off-balance sheet portion of the federal debt carries a much higher interest rate than the cost of federal debt directly issued by the U. S. Treasury.

There are three components to this cost of "parking" FSLIC's accumulated insolvency loss in the private sector. The first is the cost of the deposits funding this loss, which was estimated to be $64 billion at the end of 1987. The interest rate on these deposits is approximately 7.5%. The second component is the operating cost of running the deposit-taking and asset management activities related to the accumulated insolvency loss. This is estimated to add at least 1.5% to the carrying cost of this insolvency loss. The third cost component, and the hardest to quantify, is the cost of inefficient operations and asset mismanagement in the thrifts that are doomed to fail. These thrifts had assets with a total book value of $398 billion at the end of 1987. Assuming this deterioration cost annually equals just 1% of $335 billion in assets (at market value), then this cost currently adds 5.5% to the carrying cost of the accumulated insolvency cost. This brings the annual interest rate on these "parked" losses to approximately 15%.

3 - Long-standing branching and interstate banking restrictions have prevented individual depository institutions from diversifying their lending risks across broad regions or the entire country. Had regional or interstate branching been in place by 1980, the loan losses arising out of the regional and sectorial deflation of recent years would have been borne by individual institutions out of profits they earned on a nationwide basis. However, because of branching restrictions, these deflationary losses have bankrupted hundreds of thrifts operating within the affected regions. FSLIC in turn has had to absorb these losses.

4 - Numerous regulatory and monetary failures over many years:

- During the post-war vears particularly, federal housing policies exacerbated the inherently unsound borrow-short, lend-long financial structure of thrifts by encouraging and assisting thrifts in making long-term, fixed-rate loans.

- The extension of the Federal Reserve's Regulation Q interest rate controls to thrifts in 1966 breathed new life into the thrift financial structure by attempting to control the cost of funds for thrifts. However, this act fostered the continued growth of thrifts. Between the end of 1966 and the end of 1979, the assets of federally insured thrifts (S&Ls and mutual savings banks) almost quadrupled, rising from $182.1 billion to $715.2 billion. Thrift assets actually grew faster than GNP, rising from 23.6% of GNP at the end of 1966 to 28.5% of GNP thirteen years later.

- The Fed changed the interest rate ground rules in October 1979 when it stopped controlling interest rates. The subsequent explosion in rates, which reflected the inflation then raging in the economy, drove the entire thrift industry into insolvency on a market-value basis. Operating losses in 1981 and 1982 dropped the book value of thrift net worth from 5.7% of assets at the end of 1979 to 3.4% at the end of 1982.

- The deregulation of thrifts in the aftermath of the Fed's 1979 change in interest rate policies was badly bungled. The cost of thrift liabilities was deregulated much more rapidly and extensively than thrift asset powers. Furthermore, the examination and supervision of FSLIC-insured thrifts were not expanded to cope with the greater risk-taking powers granted to these thrifts and the increasing heterogeneity of this industry.

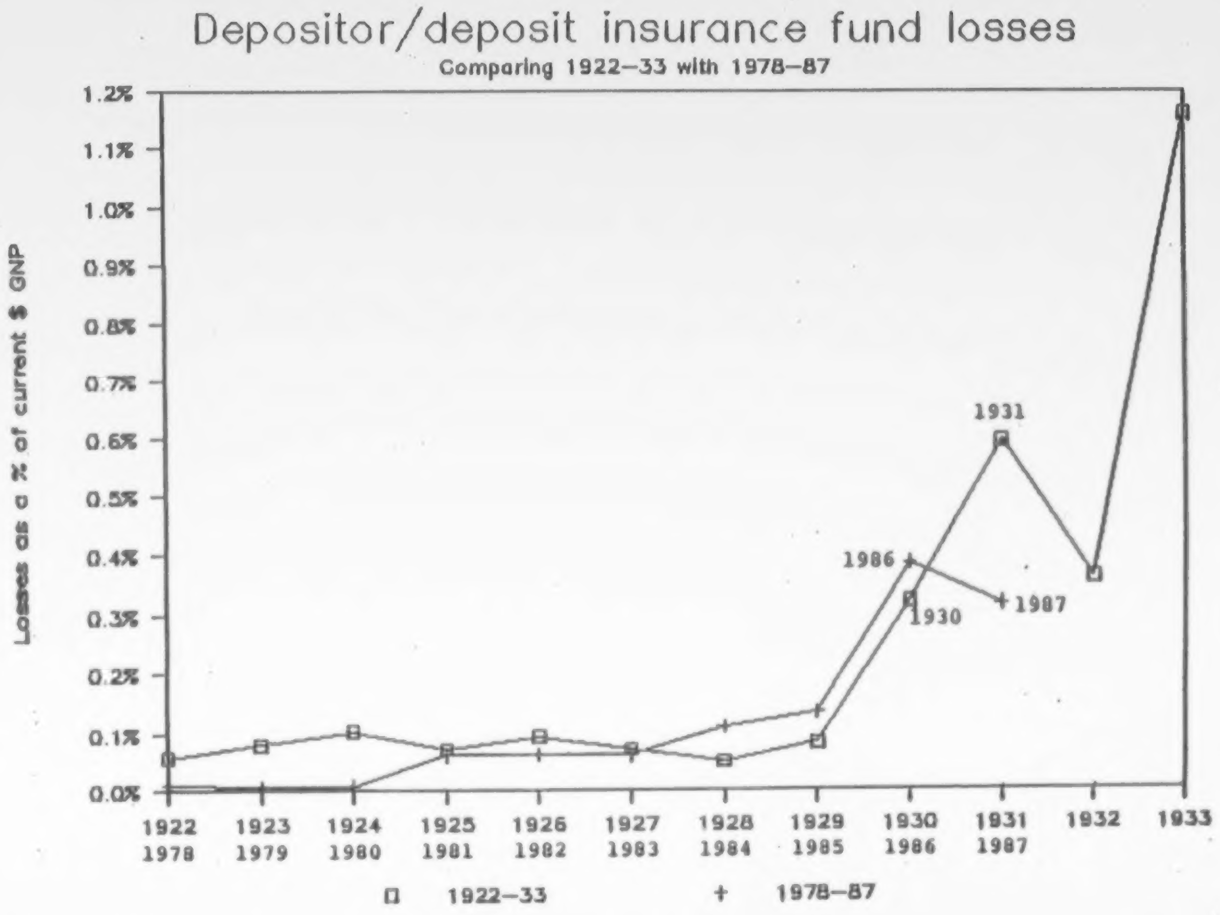
- Regulators have used very liberal accounting principles and illusory capital to mask the extent to which the solvency of the thrift industry has declined. This cover-up has greatly exacerbated FSLIC's losses.

5 - Specific federal policies over the years have harmed depository institutions far more than they have harmed other, less-leveraged institutions:

- Accelerated tax depreciation in the early and mid-1980s led to overbuilding of commercial real estate and subsequent losses where real estate values later declined. Lenders have been major losers. More specifically, accelerated depreciation increased the cash flow generated by new commercial real estate and thus stimulated construction of new buildings by increasing the number of projects that appeared to be financially feasible. That factor, coupled with a rapid appreciation of real estate values driven by the high inflation of the early 1980s, led to lending standards that in hindsight were imprudent.

- Various federal and state petroleum pricing and production policies accentuated the inflationary consequences of the Arab oil boycotts and production cutbacks of the 1970s. The subsequent drop in oil prices was a major cause of the deflationary pressures that have crunched the extractive industries and the real estate activities associated with them. In other words, had various public policies not accentuated the run-up in the price of oil and all of the expansionary activities encouraged by that high price, neither the subsequent price decline nor the consequences of that decline would have been so hard on both banks and thrifts.

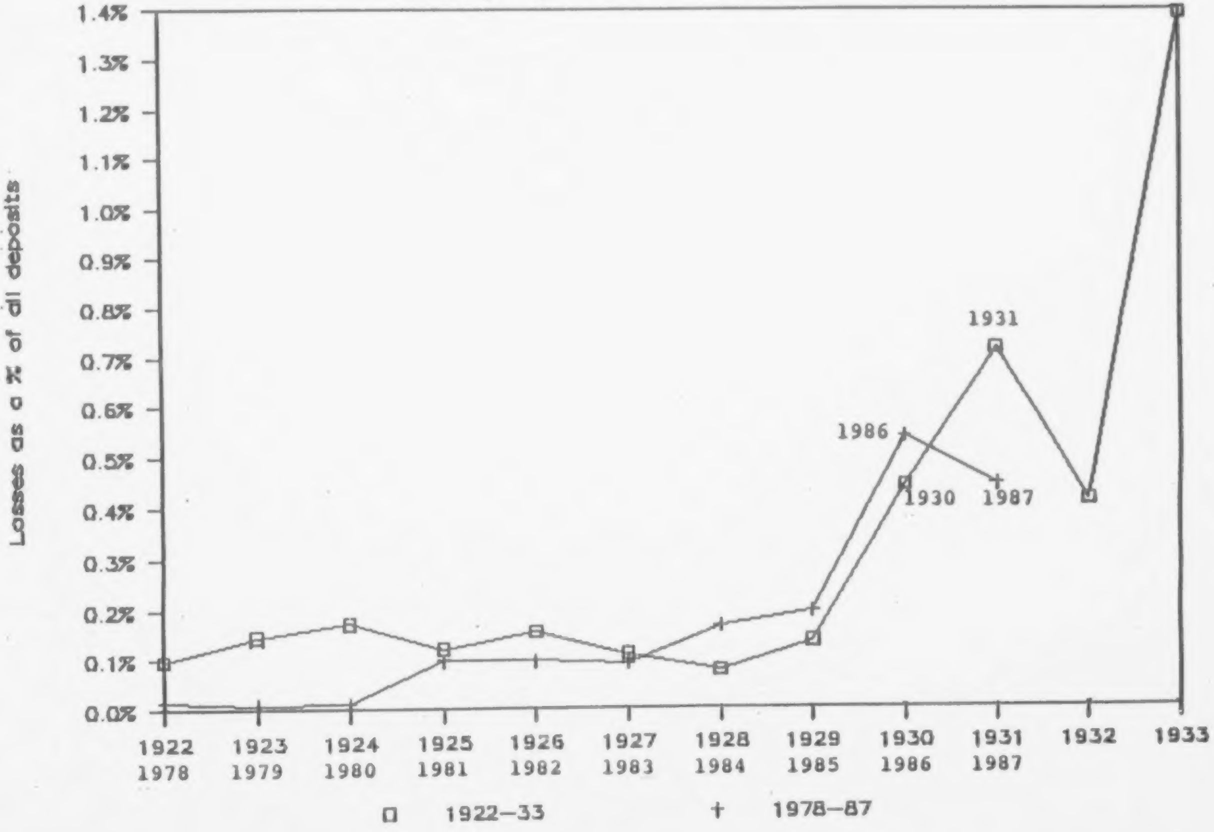
- Farm price support programs and subsidized exports unjustifiably inflated land values in the 1970s. When that bubble burst, farm bankruptcies soared and scores of banks and thrifts subsequently failed.



Depositor/deposit insurance fund losses

Comparing 1922–33 with 1978–87

Appendix 3



Depositor/deposit insurance fund losses

Comparing 1922–33 with 1978–87

Present value of case resolution-related cash flows applicable to selling or liquidating insolvent thrifts after October 1, 1987 (1)
Data taken from July 7, 1988, cash flow projection presented by Danny Wall to the House Banking Committee (copy attached)
Dollars in thousands

Line No.(2)		FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	Eleven year totals
	Cash outflows:												
10	Assets acquired from insured thrifts	11,754	11,754	11,754	11,754	11,754	0	0	0	0	0	0	58,770
13A	Assisted solutions -- cash paid out	2,146,602	1,734,961	1,940,400	2,243,379	2,724,090	2,524,085	1,140,780	35,144	101,764	14,820	0	14,606,025
13A	Less: paid on pre-FY88 solutions (3)	(361,000)	(181,000)	(90,000)	(45,000)	(23,000)	(22,000)	0	0	0	0	0	(722,000)
13B	Assisted solutions -- notes issued (4)	4,454,015	3,926,333	1,060,424	1,292,742	1,176,583	306,417	0	0	0	0	0	12,216,514
14A	Liquidations -- cash paid out	3,829,500	592,800	592,800	592,800	592,800	0	0	0	0	0	0	6,200,700
14B	Assisted liquidations -- notes issued (4)	1,370,690	494,000	494,000	494,000	494,000	0	0	0	0	0	0	3,346,690
	Total cash outflows	11,451,561	6,578,848	4,009,378	4,589,675	4,976,227	2,808,502	1,140,780	35,144	101,764	14,820	0	35,706,699
	Cash recoveries:												
5	Returns on claims against receivers	1,761,798	1,289,733	1,172,593	1,251,130	1,281,639	1,142,359	1,654,843	1,238,724	412,506	0	0	11,205,325
5	Less estimated cash in from 9-30-87 subrogated accounts and collateralized advances (5)	(1,899,000)	(949,000)	(475,000)	(237,000)	(237,000)	0	0	0	0	0	0	(3,797,000)
7	Liquidation of acquired assets	41,009	36,224	32,798	29,852	27,318	25,139	21,620	18,593	15,990	13,751	11,826	274,120
	Net cash recoveries	(96,193)	376,957	730,391	1,043,982	1,071,957	1,167,498	1,676,463	1,257,317	428,496	13,751	11,826	7,682,445
	Net cash outflow	11,547,754	6,201,891	3,278,987	3,545,693	3,904,270	1,641,004	(535,683)	(1,222,173)	(326,732)	1,069	(11,826)	28,024,254

Net present value of net cash flows (6):

Discount rate:	Present value
7%	25,937,164
8%	25,670,565
9%	25,411,309
10%	25,159,202

Footnotes:

(1) This is the present value of the cash flows that would be applicable under the July 7 forecast to sell or liquidate thrifts where the thrifts were (A) insolvent on October 1, 1987, the beginning of the eleven year forecast period, or (B) become insolvent at any time during the eleven year period. Excluded are all cash flows that do not directly compensate for the negative net worth of the insolvent thrifts.

(2) Refers to line numbers on the July 7 cash flow forecast attached to this appendix.

(3) This cash outflow is excluded since it represents a cost incurred in pre-October 1, 1987, case resolutions. The amount by year is estimated; the total is from an unpublished source.

(4) Notes issued are treated as a cash outlay since this is how they are treated by OMB. Interest paid on FSLIC notes is excluded from this present value calculation because counting the face value of a FSLIC note as an outlay in the year in which it is issued effectively includes both the principal and the interest paid to the note holder over the life of the note. From another perspective, interest paid on the FSLIC notes is comparable to the interest paid on the FICO bonds because giving notes, in lieu of cash, to buyers of insolvent thrifts is the functional equivalent of selling debt to third parties. From the perspective of note holders, the interest income on the FSLIC notes is reinvestment income, not additional FSLIC assistance. Put another way, interest on the FSLIC notes would not even be incurred if FSLIC used only cash to liquidate and sell insolvent thrifts, yet the present value cost to FSLIC of resolving these thrifts would be the same. In effect, the amount of negative net worth FSLIC must cover in an insolvent thrift is independent of the method FSLIC uses to finance the sale or liquidation of that thrift.

(5) This cash recovery is excluded since it represents a recovery on costs incurred in resolving insolvent thrifts disposed of prior to October 1, 1987. The amount by year is estimated; the total was taken from FSLIC's 9-30-87 balance sheet.

(6) The net cash flow for fiscal year 1988 was not discounted; the succeeding years were discounted at the stated rate.

Appendix 4

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
PRO FORMA: ESTIMATED BUDGET OUTLAYS AND CASH FLOWS
FISCAL YEARS 1988 - 1998
(000's OMITTED)

Assumptions:
Full special assessment continued until
FSLIC notes payable paid off in 1998
Deposit growth @ 1.75% per quarter
Potential return on assistance outside
the Southwest Plan is not shown

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	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	Total (1988-1993)
1 RECAPITALIZATION PROCEEDS	2,900,000	2,500,000	1,500,000	1,500,000	1,000,000	1,000,000	10,400,000
2 REGULAR INSURANCE PREMIUMS	578,162	413,451	307,336	222,875	156,940	133,316	1,812,080
3 SPECIAL INSURANCE PREMIUMS	1,032,053	1,151,002	1,269,541	1,389,432	1,312,206	1,423,286	7,777,520
4 INTEREST ON SECURITIES	167,427	76,048	94,340	102,914	107,232	80,452	628,413
5 RETURN ON CLAIMS AGAINST RECEIVERS	1,761,798	1,289,733	1,172,593	1,251,130	1,281,639	1,142,359	7,899,251
6 CAPITAL CERTIFICATE INCOME	44,000	44,000	44,000	44,000	44,000	44,000	264,000
7 LIQUIDATION OF ACQUIRED ASSETS	41,009	36,224	32,798	29,852	27,318	25,139	192,342
8 MISCELLANEOUS INCOME	836,990	192,575	192,563	172,502	138,911	143,611	1,677,151
9 ADMINISTRATIVE AND NONADMINISTRATIVE OPERATING EXPENSES	(218,371)	(216,212)	(224,861)	(233,856)	(243,210)	(252,938)	(1,389,448)
10 ASSETS ACQUIRED FROM INSURED INSTITUTIONS	(11,754)	(11,754)	(11,754)	(11,754)	(11,754)	0	(58,770)
11 INTEREST ON NOTES PAYABLE	(278,977)	(752,296)	(806,792)	(791,426)	(744,096)	(834,641)	(4,208,228)
12 PRINCIPAL PAYMENTS ON NOTES ISSUED THROUGH 1986 *	(138,995)	0	0	0	(15,000)	(597,220)	(751,215)
13 ASSISTED SOLUTIONS							
A. CASH	(2,146,602)	(1,734,961)	(1,940,400)	(2,243,379)	(2,724,090)	(2,524,085)	(13,313,518)
B. NEW NOTES PAYABLE	(4,454,015)	(3,926,333)	(1,060,424)	(1,292,742)	(1,176,583)	(306,417)	(12,216,513)
14 LIQUIDATIONS							
A. CASH	(3,829,500)	(592,800)	(592,800)	(592,800)	(592,800)	0	(6,200,700)
B. NEW NOTES PAYABLE	(1,370,690)	(494,000)	(494,000)	(494,000)	(494,000)	0	(3,346,690)
15 Net Budgetary Inlay (Outlay)	(5,087,466)	(2,025,323)	(517,860)	(947,251)	(1,733,288)	(523,138)	(10,834,325)
16 PRINCIPAL PAYMENTS ON NOTES ISSUED AFTER 1986 *	(855,494)	(1,700,000)	(1,200,000)	(300,000)	(200,000)	(300,000)	(4,555,494)
17 OUTSTANDING NOTES PAYABLE	8,021,328	10,430,296	11,234,072	12,409,450	13,553,669	12,962,866	
18 Cash Inflow (Outflow) **	(118,255)	695,010	(163,435)	539,490	(262,705)	(516,720)	173,385
19 End-Of-Year Investments	781,591	1,476,601	1,313,166	1,852,656	1,589,951	1,073,231	

* Current budget guidelines require FSLIC to count the full principal value of all promissory notes issued after FY 1986 as budget outlays. Accordingly, principal payments on these notes are excluded as budget outlays. Also, principal payments on notes issued before 1987 are counted as outlays.

** Cash Inflow (Outflow) equals Net Budgetary Inlays (Outlays) minus New Notes Payable plus Principal Payments on Notes Issued After 1986.

Appendix 4 - Page 3

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
PRO FORMA: ESTIMATED BUDGET OUTLAYS AND CASH FLOWS
FISCAL YEARS 1988 - 1998
(000's OMITTED)

Assumptions:
Full special assessment continued until
FSLIC notes payable paid off in 1998
Deposit growth @ 1.75% per quarter
Potential return on assistance outside
the Southwest Plan is not shown

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	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	TOTAL (1988-1998)
1 RECAPITALIZATION PROCEEDS	425,000	0	0	0	0	10,825,000
2 REGULAR INSURANCE PREMIUMS	134,991	221,934	315,125	415,012	522,078	3,421,220
3 SPECIAL INSURANCE PREMIUMS	1,814,870	1,945,285	2,085,071	2,234,902	2,395,500	18,253,148
4 INTEREST ON SECURITIES	65,177	66,430	67,614	66,748	66,203	960,584
5 RETURN ON CLAIMS AGAINST RECEIVERS	1,654,843	1,238,726	412,506	0	0	11,205,324
6 CAPITAL CERTIFICATE INCOME	44,000	44,000	44,000	44,000	44,000	484,000
7 LIQUIDATION OF ACQUIRED ASSETS	21,620	18,593	15,990	13,751	11,826	274,123
8 MISCELLANEOUS INCOME	148,814	154,556	160,822	167,605	174,903	2,483,851
9 ADMINISTRATIVE AND NONADMINISTRATIVE OPERATING EXPENSES	(252,938)	(252,938)	(252,938)	(252,938)	(252,938)	(2,654,138)
10 ASSETS ACQUIRED FROM INSURED INSTITUTIONS	0	0	0	0	0	(58,770)
11 INTEREST ON NOTES PAYABLE	(607,312)	(473,802)	(337,650)	(211,708)	(73,726)	(5,912,425)
12 PRINCIPAL PAYMENTS ON NOTES ISSUED THROUGH 1986 *	(597,220)	(597,221)	0	0	0	(1,945,656)
13 ASSISTED SOLUTIONS						
A. CASH	(1,140,780)	(35,144)	(101,764)	(14,820)	0	(14,606,026)
B. NEW NOTES PAYABLE	0	0	0	0	0	(12,216,513)
14 LIQUIDATIONS						
A. CASH	0	0	0	0	0	(6,200,700)
B. NEW NOTES PAYABLE	0	0	0	0	0	(3,346,690)
15 Net Budgetary Inlay (Outlay)	1,711,065	2,330,416	2,408,776	2,462,553	2,887,847	966,332
16 PRINCIPAL PAYMENTS ON NOTES ISSUED AFTER 1986 *	(1,700,000)	(2,300,000)	(2,400,000)	(2,500,000)	(2,868,425)	(16,323,919)
17 OUTSTANDING NOTES PAYABLE	10,665,646	7,768,425	5,368,425	2,868,425	0	
18 Cash Inflow (Outflow) **	11,065	30,416	8,776	(37,447)	19,422	205,616
19 Investments (end of period)	1,084,296	1,114,712	1,123,488	1,086,041	1,105,462	

* Current budget guidelines require FSLIC to count the full principal value of all promissory notes issued after FY 1986--as budget outlays. Accordingly, principal payments on these notes are excluded as budget outlays. Also, principal payments on notes issued before 1987 are counted as outlays.

** Cash Inflow (Outflow) equals Net Budgetary Inlays (Outlays) minus New Notes Payable plus Principal Payments on Notes Issued After 1986.

Analysis of estimated costs of six Southwest Plan resolution actions
Based on data set forth in attached copy of Attachment II to GAO testimony to the House Banking Committee dated September 8, 1988

	-----Calculations relating to notes------ (Column explanations below)					--Calculations relating to assistance agreements--- (Column explanations below)					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Coastal Banc SA	38.6%	9.99%	107.4%	64.4%	10.48%	46.1%	8.15	54.9%	85.5%	1.63	20.0%
Southwest SA	38.6%	9.99%	79.0%	64.5%	10.49%	47.0%	7.90	43.8%	85.7%	1.61	20.4%
Merabank FSB (2 thrifts)	36.7%	10.54%	77.7%	62.5%	10.41%	43.7%	8.25	42.8%	84.3%	1.69	20.5%
Gibson Group, Inc.	36.8%	10.51%	88.2%	63.0%	10.48%	42.2%	8.60	82.1%	78.0%	2.47	28.7%
Sunbelt SA	37.3%	10.36%	96.9%	62.6%	10.35%	42.4%	8.70	64.1%	78.1%	2.50	28.7%
Merabank FSB (State Federal)	36.8%	10.51%	83.0%	62.6%	10.41%	44.0%	8.20	38.4%	83.7%	1.77	21.6%
Weighted averages	37.4%	10.34%	92.3%	62.9%	10.34%	43.7%	8.40	58.7%	79.9%	2.27	27.0%

Column explanations:

(1) Present value of notes issues as a percent of the face value of the notes.
(2) Imputed interest rate at which the face value of the note has been discounted, assuming a 10-year note term in all deals.
(3) Interest paid on a cash basis as a percentage of the face value of the note.
(4) Present value of interest paid as a percentage of the cash interest paid.
(5) Imputed interest rate paid on the note, assuming a 10-year life and using the imputed discount rate.
(6) Present value of the capital loss coverage as a percentage of the cash paid out as capital loss coverage.
(7) Imputed number of years until capital loss coverage is paid, based on the imputed discount rate. Assumes all capital loss coverage is paid on one date.
(8) Yield subsidy paid in cash as a percentage of the cash paid under the capital loss coverage.
(9) Present value of the yield subsidy as a percentage of the cash paid under the yield subsidy.
(10) Imputed number of years the yield subsidy is paid, based on the imputed discount rate and assuming the yield subsidy is paid at a constant level until it is terminated.
(11) Imputed number of years yield subsidy is paid as a percentage of the number of years until the capital loss coverage is paid.

Taken from the testimony of the General Accounting Office (GAO)
to the House Banking Committee dated September 8, 1988

ESTIMATED COSTS OF
SOUTHWEST PLAN RESOLUTIONS ACTIONS
THROUGH AUGUST 31, 1988
(Unaudited)

ACQUIRER	ESTIMATED COST OF ASSISTANCE AGREEMENTS (PRESENT VALUE)	PRESENT VALUE BASIS # CASH	NOTES (PRINCIPAL)	NOTES (INTEREST)	CAPITAL LOSS COVERAGE	YIELD SUBSIDY	OTHER **
COASTAL BANC SA	$146,226	$3,627	$12,584	$22,569	$52,001	$52,888	$2,557
SOUTHWEST SA	1,980,323		219,637	290,136	817,137	653,413	
MERABANK FSB	83,868		14,093	18,565	29,954	24,692	(3,436)
GIBSON GROUP, INC.	1,313,780		197,393	297,739	317,319	481,404	19,925
SUNBELT SA	6,166,637		918,691	1,492,472	1,721,533	2,033,941	
MERABANK FSB	581,787	—	55,029	77,612	261,323	190,634	(2,811)
TOTAL	$10,272,621	$3,627	$1,417,427	$2,199,093	$3,199,267	$3,436,972	$16,235

ACQUIRER	ESTIMATED COSTS OF ASSISTANCE AGREEMENTS (CASH BASIS)	CASH BASIS # CASH	NOTES (PRINCIPAL)	NOTES (INTEREST)	CAPITAL LOSS COVERAGE	YIELD SUBSIDY	OTHER **
COASTAL BANC SA	$237,225	$3,627	$32,639	$35,041	$112,752	$61,870	($8,704)
SOUTHWEST SA	3,521,024		569,682	450,050	1,738,990	762,302	
MERABANK FSB	156,582		38,249	29,720	68,504	29,296	(9,187)
GIBSON GROUP, INC.	2,379,171		535,743	472,633	752,155	617,277	1,363
SUNBELT SA	11,509,284		2,459,761	2,383,834	4,061,931	2,603,758	
MERABANK FSB	1,084,645	—	149,353	123,938	593,702	227,718	(10,066)
TOTAL	$18,887,931	$3,627	$3,785,427	$3,495,216	$7,328,034	$4,302,221	$(26,594)

** "Other" column includes mark to market adjustments, prepayment penalties on FHLB advances and projected future income from FSLIC ownership interests.

All figures in thousands.

Source: FSLIC records

Appendix 6 - Page 1

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

Legal Division

RECEIVED
MAY 12 1988

May 9, 1988

Mr. Bert Ely
Ely & Company, Inc.
803 Prince Street
Alexandria, Virginia 22314

Dear Mr. Ely:

This is in response to your letter dated April 29, 1988, submitted under the Freedom of Information Act, as amended (5 U.S.C. §552), in which you request a copy of the assistance agreement entered into between FDIC and First City Bancorporation.

Enclosed is a copy of the First City Assistance Agreement which is being released to you in its entirety. The FDIC does not have in its possession the final version of the Exhibits and Schedules to the Assistance Agreement. You may obtain from the Securities Exchange Commission a copy of First RepublicBank Corporation's Registration Statement on Form S-1 and Post Effective Amendment No. 1 to Form S-1 with Exhibits, Vols. 1 and 2 (No. 33-19694-April 29, 1988), which contains the publicly available Exhibits and Schedules to the Assistance Agreement.

Sincerely,

Ross S. Delston

Ross S. Delston
Counsel

Enclosures

Appendix 6 - Page 2

E L Y & C O M P A N Y, I N C.

803 Prince Street
Alexandria, Virginia 22314
703/836-4101

Mailing Address:
Post Office Box 21010
Alexandria, Virginia 22320

Financial Institutions Consulting

Deposit Insurance and
Banking Structure Studies
Public Policy Analyses
Strategic Planning

April 26, 1988

Freedom of Information Section
Office of the Executive Secretary
Federal Deposit Insurance Corporation
Room 6108
550 17th Street, N.W.
Washington, D. C. 20429

Re: First City Bancorporation

To whom it may concern:

I am writing to request that I be sent a copy of the assistance agreement entered into between the FDIC and First City Bancorporation. When I called earlier today to the FOIA office at the FDIC, I was told that I could obtain a copy of this assistance agreement by writing to request that a copy be mailed to me.

Thanking you in advance, I am,

Very truly yours,

Bert Ely

Bert Ely

Appendix 7

FSLIC'S DEFICIT: ROADBLOCK TO RESOLUTION

by Bert Ely

FSLIC's deficit, or accumulated insolvency loss, looms as a major roadblock to resolving the FSLIC mess in a timely and economical manner. This paper proposes that the federal government's annual financial statements for the fiscal years 1982 to 1988 be restated to include an amount by which FSLIC's accumulated insolvency loss grew in each of those years. FSLIC's accumulated insolvency loss, which Ely & Company estimates will reach the range of $70-$75 billion by September 30, 1988, represents FSLIC's liability to depositors in hopelessly insolvent, but still operating thrifts.

This restatement of the federal government's financial statements would reflect this economic reality: the total amount of the federal government's outstanding debt is increasing as insolvency losses grow inside insolvent thrifts. More importantly, this restatement would remove the prospective budget impact of a quick FSLIC cleanup as a major political and psychological hurdle blocking an early and decisive resolution of the FSLIC mess. Without this restatement, a quick FSLIC cleanup most likely would materially add to the budget deficit in the years in which the cleanup was taking place. Fiscal year 1982 is recommended as the beginning of the restatement period since that was the year in which Congress first resolved that the full-faith-and-credit of the United States backed the three federal deposit insurance funds.

There are two different kinds of precedents for this type of restatement. First, the government's financial statements for prior years have been restated on several occasions, usually when specific federal activities have been moved on or off budget.

Second, since 1983, the smallest federal deposit insurer, the National Credit Union Share Insurance Fund, has been accruing its liability for the losses it can reasonably expect in troubled credit unions that are currently open and operating. This type of accrual, called "incurred but not yet reported losses" in the insurance industry, conforms with generally accepted accounting principles (GAAP). Thus, restating the government's financial statements to reflect the growth in FSLIC's accumulated insolvency losses would bring the federal government more closely in line with GAAP. Because the Federal Home Loan Bank Board has extensive quarterly data on every thrift it insures, it would not be difficult to calculate the build-up of FSLIC's accumulated insolvency loss on a year-by-year basis.

The actual FSLIC cleanup process can be handled in one of two ways:

(1) A crash effort can be made to dispose of the insolvent and nearly insolvent thrifts in two or three years. This process would rapidly shift the management and control of insolvent thrifts into the hands of better capitalized and more competent managers. These actions would quickly curtail the growth of FSLIC's accumulated insolvency loss, which now exceeds $10 billion or more annually.

> (2) The insolvent thrifts can continue to be warehoused in the private sector while a long-term (ten years or more) cleanup is undertaken. A long-term cleanup almost certainly will be more expensive for the economy, in present value terms, than a quick cleanup. There are two reasons for this. First, the interest rate or carrying cost for insolvent thrifts warehoused in the private sector is higher than the cost of direct Treasury debt. Second, these warehouses, with total assets initially in excess of $400 billion (book value), would generally be managed by sub-par executives. Third, warehousing the insolvent thrifts would perpetuate the depository overcapacity that is harming all American banks, thrifts and credit unions.

Given the likely outcome of these two alternatives, an increasing number of people believe that option one, the quick cleanup, is the best way to proceed.

The quick cleanup approach will require substantial cash outlays by FSLIC. These outlays could easily exceed $100 billion during a three year disposal period. Some of these outlays would be recovered in succeeding years as assets from liquidated thrifts were converted into cash. If this cleanup process began next year, these recoveries would bring the eventual cost of the FSLIC cleanup down into the $70-$75 billion range. Continental Illinois and First Republic illustrate this phenomenon: in each case, initial cash outlays have or will exceed the FDIC's eventual cost.

Cash outlays would have to be high during the cleanup period largely because that is the only way an overdue deposit shrinkage in the thrift industry can be funded. The liquidation of these unneeded deposits is crucial to eliminating the excess capacity that has built up in our depository institutions in recent years. This shrinkage would be accomplished in one of two ways:

> (1) Many insolvent thrifts with a substantial portion of their deposits in high cost, large denomination certificates of deposit probably could be sold, but only with FSLIC supplying sufficient cash assistance to permit the acquiring thrift to run off or liquidate the acquired thrift's high cost deposits as they matured.
>
> (2) Thrifts that could not be sold, even with substantial FSLIC cash assistance, would have to be liquidated and their depositors paid off. Ely & Company recently identified thrifts with more than $10 billion of deposits that are liquidation candidates. It might be that thrifts with as much as $20-$30 billion of deposits eventually will have to be liquidated. It would be highly undesirable for our healthy depositories, and ultimately for the American taxpayer, not to pursue this deposit shrinkage strategy.

If the federal government's prior years' financial statements were restated to include in its annual deficits and the accumulated national debt the liability that has been piling up in the FSLIC, then any cash spent in liquidating or selling insolvent thrifts could be charged against the FSLIC liability included in the national debt as of September 30, 1988. These outlays would have no budget effect in the years in which the cash was actually spent, up to the amount accrued as FSLIC's accumulated liability. This would be the case since the losses these outlays would represent would have been expensed, on a restated basis, over the fiscal years 1982 to 1988.

In effect, these outlays would be comparable to refunding or rolling over a portion of the national debt. The Treasury bonds sold to raise the cash to sell or liquidate insolvent thrifts would reduce, on a dollar-for-dollar basis, FSLIC's accrued liability included in the national debt. Thus, this refunding would not alter the total amount of the national debt.

An example will illustrate this point. If FSLIC's accrued liability for insolvent thrifts were set at $70 billion as of September 30, 1988, and if this amount were spread back over the 1982-1988 period, then the first $70 billion of cash spent to clean up the FSLIC mess would represent a refunding of a portion of the national debt. These cash outlays would have no budget effect in fiscal year 1989, 1990, or any year after that.

As mentioned above, the cash outlays for the FSLIC cleanup easily could exceed $100 billion, even with quick cleanup action. Even outlays over $70 billion (to use this example) would not have to have a budget impact if another aspect of GAAP is applied to federal budget accounting: recording as an asset the cash that FSLIC could reasonably except to receive from liquidation receiverships and from selling the assets it has to assume when assisting the sale or merger of insolvent thrifts.

Some might charge that this proposal is nothing more than fiddling with the government's books to achieve a desired result. That may be true. However, this proposal actually represents more defensible accounting practices than what is now practiced by the federal government.

Understandably, the Reagan Administration would not be excited about this type of restatement. But a President Dukakis should not oppose a restatement if it helps to quickly clear away a major threat to its administration. Even a President Bush should not oppose a restatement since there would be far more political pluses than minuses for him in following this course of action if it leads to a quick cleanup of the FSLIC mess.

Conceivably there are other ways of financing a quick cleanup of the FSLIC mess without having to restate the government's prior year financial statements. All of these techniques, however, would require amortizing the cleanup cost over future years. There are two difficulties with a long-term amortization of the cost of a quick cleanup.

First, the cash to pay for the quick cleanup would have to be raised in some off-balance-sheet manner, such as is being done with the bonds being sold by FSLIC's Financing Corporation (FICO). The FICO bonds have three drawbacks:

(1) These bonds add to the cost of the cleanup. For example, if $20 billion of a $70 billion FSLIC bailout cost were paid by the thrift industry, FDIC, and/or other existing, non-taxpayer sources, then at least $50 billion and more likely $80 billion of FICO bonds would have to be sold. If these were 30-year bonds sold at 100 basis points, or one percent, over the rate on 30-year Treasury bonds, the present value of the additional interest on these bonds, discounted at nine percent, would add approximately $5 billion to the present value cost of cleaning up the FSLIC mess. At a 150 basis point premium over Treasuries, FICO-type bonds would add $7.5 billion to the present value of the FSLIC cleanup cost. That would be a very high, real price to pay in order to spread the cost of the FSLIC cleanup over the next thirty years. Loading this cost onto the healthy banks and thrifts would further depress their stock prices and impede their ability to raise additional capital.

(2) The use of FICO bonds increases the likelihood that America's healthy thrifts and commercial banks will pay for most if not all of the FSLIC cleanup cost. Not only is this not fair, since it is public policy and delay that have permitted FSLIC's accumulated insolvency loss to mushroom, but it also would harm the competitiveness of American-domiciled depository institutions both domestically and internationally. Imposing this debt servicing responsibility on the depository institutions that will survive the FSLIC debacle would be comparable to imposing airbag requirements on cars built in the U. S. by American-domiciled companies, but not on cars imported into the United States or built in the U. S. by foreign-based auto manufacturers.

(3) It is questionable if $50 billion to $80 billion of FICO-type debt could be sold without keeping this debt out of at least some tallies of the total federal indebtedness. It certainly would be included when federal agency indebtedness is counted as part of the national debt. Thus, the FICO approach will be a very expensive charade ultimately, it may be an ineffective one.

The second problem with trying to amortize the FSLIC cleanup cost over the next thirty years or so is that it may stretch out the actual cleanup process over eight or ten or more years. This stretch-out could easily occur if it were not practical to sell $20-$30 billion of FICO-type bonds for three straight years.

As discussed above, a stretch-out of the cleanup process would damage the American economy and especially to our depository institutions. They are embattled enough without burdening them with the totally unneeded and undesirable excess capacity represented by the insolvent thrifts that would continue to operate during a prolonged cleanup period.

The FDIC should not be left out of this restatement process. It too should restate its financial statements for the 1982-88 period. FDIC's statements, and the government's overall financial statements, would then reflect the buildup of prospective FDIC losses in insolvent banks that were still operating at the end of each of these fiscal years. This restatement would be particularly beneficial in assessing the true state of the FDIC's reserves before any portion of them are appropriated to pay FSLIC's bills.

America will be better off by billions, if not tens of billions of dollars, of additional GNP and national wealth if the FSLIC mess is cleaned up over the next two to three years. We have seen how quickly things can move in the banking industry, and specifically in Texas, once the real magnitude of the problem is grasped, and funded with cash. There is no reason why the same cannot happen in the thrift industry. Key to expediting the cleanup process is restating the government's financial statements for the fiscal years 1982 to 1988 to reflect the increase in FSLIC's accumulated insolvency loss over those years.

Senator **Wirth**. The next witness is Mr. Herbert Sandler, the Chairman of the Board and Chief Executive Officer of Golden West Financial and World Savings and Loan.

Mr. Sandler, we appreciate you being here. If you, as the other witnesses, might summarize your testimony in 10 minutes or less, I think we'd like to get to questions, and then we will follow with Mr. Barclay.

Thank you, sir.

STATEMENT OF HERBERT M. SANDLER, CHAIRMAN, WORLD SAVINGS & LOAN ASSOCIATION, OAKLAND, CA

Mr. **Sandler**. Thank you, Mr. Chairman, Senator Exon.

My name is Herbert Sandler. I am Chairman of World Savings, as you indicated, a $14 billion company with almost 200 savings offices in the States of California, Colorado, Kansas, Texas and Washington, and lending offices in 15 States.

World is and has been one of the most profitable thrifts in the country, with high net worth, and low nonperforming assets—and we make only residential loans, and we keep them in our portfolio.

We are also one of the largest taxpayers in the financial services industry, having paid over $100 million in Federal and State taxes in each of the last 2 years.

I have been asked to discuss the size of the FSLIC loss, the cost of delay in dealing with these losses, and how it all happened. And I am going to say it like it is—what the real world is.

Some will say there is no way to precisely determine the size of the loss, and that is correct. But it is possible to determine a range, and that range is $60 billion on an optimistic basis, very probably $80 to $100 billion, and possibly more. It is a budget-buster. It is more money than the entire cost of the Marshall Plan adjusted for inflation. It is more money than the combined cost of the New York City Chrysler and Lockheed problems. And, unlike cheese or wine, the FSLIC problem will not improve with age.

Since this is the Budget Committee, I assume it is OK to use numbers. That's difficult in some committees. As of June 30th, there were about 650 savings and loans with assets of approximately $360 billion, which had a negative tangible net worth of $36 billion. Now, $36 billion is not the resolution cost. That is simply the amount of money it would take to bring the currently negative tangible GAAP net worth institutions to zero.

Most of these companies would still be losing money hand over fist and would become insolvent again immediately. Thus, these companies must disappear. Some of them have some franchise value, and possibly can be merged into healthy companies. Many have no value and will have to be liquidated.

The mix—there is no mystery to how to quantify these things—the mix of mergers and liquidations combined with what happens to real estate values and interest rates—real estate values, especially the Southwest—will be the key factors in determining the ultimate costs.

But there is no realistic scenario that will result in losses less than $60 billion, and you would have to be a hopeless optimist to think it could be that little.

As I indicated, the losses are likely to be in the upper end of the $60 to $100 billion range, if not higher, because of the following specific indicators.

1. There will be further write-downs of loans of insolvent institutions which will have to be recognized and are not yet recognized.
2. There are many institutions which are GAAP-solvent but are not viable and will not make it.
3. A spike in interest rates will significantly increase the losses.
4. On the other hand, if there is a recession, that will significantly increase the losses.
5. I guarantee you new problems due to high-risk investments made by currently operating institutions in the areas of junk bonds and mortgage derivatives, et cetera.
6. There is growth taking place by companies that are inadequately capitalized.

And there are more problems in addition to this. There is a lot more coming on-stream which are not reflected in the FSLIC caseload.

Let's turn now to the issue of the cost of delay. This is a critical point. The best estimates of the current operating losses are, on the low side, $6.5 billion annually. Most of us believe it is at least $8 to $10 billion, and Chairman Seidman believes it is as high as $12 billion, annually. These are the losses that are flowing from the excess of interest-paying liabilities over interest-earning assets, plus the costs of operating these brain-dead institutions.

And every day these institutions remain open, the losses are increasing. That means that each month the Administration and Congress fiddle and delay in providing the resources to merge or liquidate these insolvent institutions, the losses will increase by, on the low side, $500 million a month to $1 billion a month, or $12 billion a year, or if you like it better, $33 million a day—every day we hesitate. And these operating losses are compounding, further increasing both the total loss and the annual operating losses.

But it is even worse than that, if you can believe it. These insolvent institutions, which are operating with no capital at risk, are distorting the deposit gathering and lending markets, and many are taking on additional significant interest rate and credit risk, which in turn will increase further the total losses and the annual operating losses.

Further, since FSLIC has inadequate cash, and since the creditworthy of the FSLIC notes in the absence of clearcut Congressional full faith and credit are in question, FSLIC has been forced to close insolvent institutions by merging them with weak, undercapitalized thrifts, whose only objective is to obtain regulatory forebearances, or by selling them to new market entrants who may have and clearly do have hidden agendas with respect to the use of insured deposits.

And there is little question that some, if not most of these deals, will end in disaster and create new and significant losses.

One further frightening additional set of numbers. The S & L industry pays approximately $2.1 or $2.2 billion a year in premiums to the FSLIC—about $900 million in regular premiums and about $1.2 billion in the additional one-eighth assessment. FSLIC has issued almost $4 billion in FICO bonds, and they have recently indicated—and I think in today's testimony as well—that it has outstanding $20 billion in notes and guarantees.

A quick analysis suggests that the regular and special assessments barely cover the interest costs on the obligations incurred to date. The $2 billion for the next 10 years is already accounted for by the interest on obligations already on the books.

Thus, if and when FSLIC goes to market for more FICO bonds, and if, God forbid, the proposal by Congressman LaFalce for an additional authority for $5 billion more in FICO bonds becomes law, FSLIC will have become de facto another Third World country, borrowing to pay interest.

I'd like to turn now to the issue of how this all happened. And I'd like to direct your attention to an exhibit which is going to be entitled, "Genesis: The Creation of Astronomical Losses".

The real tragedy of what may be the greatest financial scandal in U.S. history is that it did not have to happen. And frankly, I'm tired of a lot of people, including a lot of Senators and Congressmen, just dismissing this by saying, "Well, there is enough blame to go around."

Well, I'm saying that's baloney. I am going to tell you where the blame is, and I am going to say it again like it is.

The first item on this chart is the deregulation, which, again to put it nicely, has been bungled and unplanned. The S & L industry had been mandated by regulators and Congress to make fixed-rate loans through the sixties and seventies. Starting as early as 1973, the thrifts begged the regulators and begged Congress for the authority to make adjustable rate loans to deal with interest rate risk.

However, we were denied again and again. And then, in the late 1970s, in their infinite wisdom, Congress deregulated liabilities before assets, in effect mandating enormous losses in excess of $10 billion.

They then took off the brokerage limits, and billions of dollars of losses were attributed to that single act. They permitted the industry to operate with little or no capital. They permitted loans to value of 100 percent. They took off any restrictions, in essence, on direct investments, and I can track in excess of $10 billion in losses to direct investments alone.

And most stupid of all, if you will, is that there were no guidelines put in place for managers or regulators and supervisors moving in a transition from a regulated environment to a deregulated environment as to how they should operate.

And the aura involved in this ideology of deregulation attracted the worst elements. To put it bluntly, bums, crooks and highrollers were attracted to the concept of being able to get insured deposits with no controls.

And for those who claim that deregulation was not a factor in the losses, consider the following fact—that between 1934 and 1981, in those 47 years, the total losses that FSLIC suffered was $630 million; and in the 7 years since deregulation, we are approaching $100 billion.

Then we turn to the State legislatures which created the free-for-all. Texas, California, Florida and other States, you could do anything you wanted. In my State, if you are State-chartered, you can dig oil wells, you can run restaurants. We can run horse stud farms—we can do anything—and believe it or not, institutions in our State did that.

The State regulators played a very key role here. They operated in a totally irresponsible manner. They chartered hundreds of institutions to people who did not have the qualifications to run a candy store, much less a financial institution which has fiduciary responsibilities. There was no concern by the regulators about who ran or owned institutions, and there was a total breakdown and abdication of any supervisory responsibility. And when I say "any", I am not exaggerating. There was no supervision or regulation in the State of California by the State authorities during the 1980s.

OMB, probably the single greatest act of stupidity I have seen by a Government agency. In the ideology of deregulation, they told the Federal Home Loan Bank Board, which was begging for more examiners and supervisors to deal with the mushrooming losses, "You can't have that"—despite the fact that the Government doesn't pay one cent of the examiners' costs. It was paid for by the industry, and we were begging for more examiners and tougher supervision. We came to the Government to say, "Take the money from us; we're going to pay," and OMB said no. How many losses are attributable to that?

Let's turn to the Federal Home Loan bank system. The system, to put it mildly, was ill-prepared. There was a lack of management competence from beginning to end. It was shocking. Supervisors and examiners were absolutely out of their depth in terms of competence, attitude or will. They were gutless.

I can tell you, Mr. Chairman, of tens of cases in which I and other S&L operators went to the supervisors, to the Chairman of the Federal Home Loan Bank, to the regulators, and begging to stop practices of institutions which were clearly leading to losses, and nothing was done despite repeated requests and repeated direction as to who was performing these activities.

And let me tell you, the losses in these companies ranged from $500 billion to FCA, on which I personally made 50 calls or more, to $2 billion, and some of us think the losses on FCA will prove to be $4 to $5 billion.

Of course, the crooks and high rollers attracted by the aura of deregulation and the opportunity to get uninsured deposits came in in droves, and they of course raped and looted the system.

And one thing you ought to know when you talk about this as "on-budget", "off-budget", the $80 to $100 billion, those losses exist now. All you folks are doing is paying for it. You are not creating the loss; it is there. The loans have been made, the assets wasted. It is gone. The only issue is how do you pay for it, and how do you stop more losses, and how do you stop it from happening again.

All of this was compounded by the depression in the Southwest and in Colorado.

I think I am probably 1 minute over, and I'd like just 1 minute's indulgence, Mr. Chairman, by virtue of special pleading.

Chairman Wall shocked us a little bit today. The special assessment originally was 5 years with a phasedown. He then, some months ago before the Banking Committee, increased it to 10 years. And today, we hear the remarkable number of 30 years.

A special assessment being paid by the S&L industry is simply a confiscatory tax. It is inequitable, and worse, it is counterproductive. It is lousy public policy for the following reasons:

1. The well-managed S & Ls who have been paying the special assessments are themselves the principal victims of the events leading to the FSLIC disaster in terms of having to pay more for deposits and the damage to our public image, which has been terrible.

2. It is patently inequitable and bad public policy to cause those who warned of the public policy errors and of the regulatory and supervisor shortcomings to pay for the consequence of those errors.

In this country, usually it is the guilty who pay, not the innocent victims.

3. Since S&L's are in direct competition with banks, the special assessment is a significant competitive handicap. It is interesting in that regard to note that the ABA (American Bankers Association) endorses the principle that thrifts cannot continue to pay the special assessment.

4. The payment of a special assessment—this is most important—is counterproductive in that its continuation will weaken the S&L's and in fact will create more losses than they provide money.

One, S&L's that might have been viable will become insolvent, causing more losses. Last year, 100 institutions that would have been profitable lost money as a direct result of the special assessment.

Two, S&L's have to build capital in order to compete and to survive. We are required to do so by regulation. And a special assessment is a devastating obstacle. The assessment represents one-fifth to one-third or more of the income for many, if not most, institutions.

And lastly, in a period in which the Presidential candidates are talking about housing and the problems we have with housing, Congress should be seeking ways to strengthen the S&L industry, not weaken us—we are the key player in any housing program—and not continue an assessment that is devastating us. In that regard, Fannie Mae has publicly stated that they think our assessment should be eliminated.

Thank you very much, Mr. Chairman.

Chairman Chiles. Thank you.

[The prepared statement of Mr. Sandler follows:]

STATEMENT OF HERBERT M. SANDLER
CHAIRMAN OF THE WORLD SAVINGS AND LOAN ASSOCIATION,
OAKLAND, CALIFORNIA

BEFORE THE

COMMITTEE ON THE BUDGET OF THE UNITED STATES SENATE

OCTOBER 5, 1988

Mr. Chairman and members of the Committee, we are pleased to have this opportunity to appear before you today to discuss conditions in the thrift industry and the FSLIC. We are here as three individuals, not as spokespersons for the thrift industry as a whole, nor for any official regulatory body or group or trade association. Our views are our own, although they are in accord with an already large and growing segment of the housing finance industry.

We are all primarily residential mortgage lenders. Our institutions are profitable and have solid real net worth positions. We are proud that our institutions have played a key role in making this the best housed nation in the world. We feel it is essential that thrifts continue to play a vital role in housing finance in the future.

We understand these hearings take place late in the legislative calendar in a busy election year. It is probably unrealistic to expect a major legislative effort in this session. Still, we believe that time is working against us as we struggle with some problems of great financial size and long-run consequence. Therefore, discussing these issues at this time is very important. Further, any actions the Congress can take to encourage constructive regulatory changes to contain the FSLIC problem in the immediate future would be most welcome.

In the detailed discussion which follows, we will state for the record our view of how the thrift industry and the FSLIC got to where it is today. We will not take a great amount of time to emphasize the number of positive steps that have been taken to strengthen the business and the thrift regulatory process. However, in brief, some of the more significant of these positive steps include:

* The Federal Home Loan Bank Board's adoption of rules permitting a viable adjustable rate mortgage which now plays a significant role in housing finance.

* The adoption by the Bank Board of new capital rules which have established a regulatory structure which can relate growth to capital capacity and the ability to bear risks.

* Implementation of new Bank Board regulations limiting the direct investment activities of thrifts and tying such activities to increased capital requirements.

* Establishing more realistic and competitive salary schedules for regulatory personnel throughout the FHLBank System to facilitate recruiting. This change also involved reassigning reporting authority of examiners to the district Banks and shifting examination personnel out of civil service status and pay scales. Reportedly personnel are brighter and better as a result, albeit less experienced. The business strongly supported this move and willingly pays the costs of the higher salaries and of the additional personnel.

* Development of a better training system for examination and supervisory personnel. New guidelines have been developed which will better inform and better coordinate the activities of these essential functions.

- More and improved district Federal Home Loan Bank participation in numerous areas. For example, several district Banks have developed and installed much improved management information systems and an examination peer review system.

In sum, a lot has been done in the 1980s to improve thrift viability and the supervisory-examination process. As a result, today's more than 2,000 healthy thrifts continue to play a major role in housing finance. In order to continue to do so, however, thrifts will need to improve their capital positions, and avoid excessive risk taking.

On the other hand, there have been some very serious mistakes made during the deregulation process of the past few years. At the time, it may not have been apparent or even possible to realize that these actions or the lack thereof would turn out to be so disastrous. Indeed, in some instances, the actions taken represented an attempt to resolve earlier problems that had arisen during the deregulation process. Nevertheless, and with some benefit from hindsight, the following mistakes are a major part of the reason that we are here today discussing a crisis at the FSLIC. These will be discussed in detail later, but include:

MISTAKE #1: THE DEREGULATION PROCESS OF THE EARLY 1980s WAS NOT WELL THOUGHT OUT AND WAS PURSUED ON AN AD HOC BASIS WITH ABYSMAL TIMING. AS A RESULT, IT CREATED A HUGE COST WHICH WAS BORNE ENTIRELY BY THE THRIFT INDUSTRY.

MISTAKE #2: BY THE END OF 1981, VIRTUALLY ALL CAPITAL DISCIPLINE HAD BEEN REMOVED FROM THE THRIFT BUSINESS. NEW CAPITAL-GROWTH REGULATIONS WERE NOT ADOPTED UNTIL JANUARY 1, 1985.

MISTAKE #3: THRIFT LENDING AUTHORITIES WERE EXPANDED TOO QUICKLY IN 1982 AND 1983 GIVEN THE REMOVAL OF VIRTUALLY ALL CAPITAL DISCIPLINE FROM THE BUSINESS AND THE BOARD'S INSUFFICIENT SUPERVISORY AND EXAMINATION RESOURCES. STATE LEGISLATORS AND REGULATORS EXACERBATED THE PROBLEM BY GRANTING ALMOST UNLIMITED AUTHORITIES.

MISTAKE #4: IT BECAME TOO EASY FOR UNDESIRABLE ACQUIRERS, ATTRACTED BY THE LURE OF VASTLY EXPANDED POWERS, TO START OR GAIN CONTROL OF THRIFT INSTITUTIONS, PUTTING UP LITTLE REAL CAPITAL IN THE PROCESS AND EXHIBITING A PROPENSITY TO ENGAGE IN SELF-DEALING AND OTHER QUESTIONABLE PRACTICES.

MISTAKE #5: THE OFFICE OF MANAGEMENT AND BUDGET OPPOSED EFFORTS TO INCREASE THE BANK BOARD EXAMINATION STAFF IN 1983 AND 1984 EVEN THOUGH THE COST OF SUCH STAFF (SALARIES, ETC.) WAS TO BE PAID BY THE THRIFT INDUSTRY.

MISTAKE #6: THE BANK BOARD MADE LITTLE USE OF ITS BROAD AND DISCRETIONARY SAFETY AND SOUNDNESS AUTHORITY IN THE EARLY 1980s TO PREVENT EXCESSIVE GROWTH AND TO RESPOND TO OTHER EARLY WARNING SIGNS OF POTENTIAL THRIFT INSTITUTION FAILURES.

MISTAKE #7: THE BANK BOARD DID NOT ENFORCE ITS OWN 1985 NET WORTH AND MAXIMUM GROWTH REGULATIONS AND FAILED TO ADOPT OTHER NEW REGULATIONS DESPITE STRONG INDUSTRY SUPPORT OF THE NEED TO DO SO AND AS A RESULT DID NOT CONTAIN THE PROBLEMS FACING THE FSLIC.

Over the past several years, numerous thrift executives including those testifying today have been very vocal in their insistence that the regulators limit the risk exposure of the FSLIC and that Bank Board regulations be enforced. In a very real sense, we feel this is extraordinary. It is not often that private firms actually seek stronger regulations and demand tougher enforcement.

How big is the problem facing the FSLIC today? As our later testimony details, we see the problem as very large and growing rapidly. At this point, our best estimate, on an extremely conservative basis, is that resolving the FSLIC problem will cost at the very least $50 billion. It is estimated that the resulting operating losses (excluding writedowns and new problems) of the insolvent institutions are ranging between $500 million and $1 billion per month.

Regulatory mistakes played a very significant role in the development of today's enormous FSLIC problem. Mismanagement, fraud and abuse also played a role. Of course, the significant deterioration in the real estate markets of the Southwest during recent years simply exacerbated the situation. So did the fundamental change in tax laws relating to real estate investments.

Although the Bank Board may not have had sufficient resources to solve the FSLIC problem, it has had significant resources available to it over the past three years. The FSLIC ended fiscal 1984 with $6.9 billion in reserves. In the period of 1985 to 1987, the thrift business has supplied an additional $5.5 billion in regular and special assessments. Of course, the FSLIC has also long been able to write FSLIC notes and enter into assistance agreements. These resources totaling more than $12 billion during the past three years were sufficient so that the Bank Board could have effectively contained the FSLIC problem.

More importantly, the FSLIC has always had the power to limit the activities of thrifts not meeting their capital requirements. It can also replace management and issue cease and desist orders. In sum, it has had the substantial powers necessary to control and limit FSLIC problems even if it did not have the resources to clean them all up.

What immediate actions must be taken to deal with the continuing buildup of the enormous problem facing the FSLIC? We will list them briefly now and discuss them further later. They include:

> ACTION #1: FACE UP TO THE REAL SIZE OF THE FSLIC PROBLEM AND ACKNOWLEDGE IT TO THE CONGRESS.
>
> ACTION #2: RECOGNIZE THAT HEALTHY THRIFTS CANNOT AND SHOULD NOT BEAR ALL THE BURDEN OF SOLVING THE FSLIC PROBLEM.
>
> ACTION #3: IMMEDIATELY STOP CREATING FSLIC DEBT AND GUARANTEES IN EXCESS OF THE AMOUNTS AUTHORIZED BY CONGRESS AND WHOSE COSTS CANNOT BE PAID BY THE FSLIC NOR HEALTHY THRIFTS. (EXPLICIT U.S. TREASURY GUARANTEE OF FSLIC DEBTS WOULD ELIMINATE THIS PROBLEM).

ACTION #4: IMMEDIATELY STOP IMPERILING THE FINANCIAL VIABILITY AND CREDIBILITY OF THE 12 FHLBANKS THROUGH BACKDOOR GUARANTEES OR PURCHASES OF EXTRA FSLIC PAPER AND THROUGH LOANS TO THOSE WHO MAY NEVER BE ABLE TO REPAY. (EXPLICIT U.S. TREASURY GUARANTEES OF FSLIC OBLIGATIONS WOULD ELIMINATE THIS PROBLEM).

ACTION #5: REMOVE MANAGERS, BOARDS OF DIRECTORS, STOCKHOLDERS AND SUBORDINATED DEBT HOLDERS OF INSOLVENT THRIFTS IN PREPARATION FOR A MAJOR LIQUIDATION EFFORT IN EARLY 1989.

ACTION #6: ENFORCE THE BOARD'S NET WORTH AND GROWTH RULES BY FORCING INSOLVENT INSTITUTIONS TO SHRINK, LOW-NET-WORTH INSTITUTIONS TO SIGNIFICANTLY LIMIT THEIR GROWTH AND BY LIMITING THE NUMBER OF HEALTHY INSTITUTIONS GROWING VERY RAPIDLY.

ACTION #7: LIMIT THE ACTIVITIES OF WEAKLY CAPITALIZED THRIFTS TO RESIDENTIAL MORTGAGE FINANCE AND CAREFULLY MONITOR PRODUCT DESIGN AND PRICING.

ACTION #8: PROHIBIT WEAKLY CAPITALIZED THRIFTS FROM BIDDING ON AND/OR ACQUIRING WEAK OR INSOLVENT THRIFTS.

ACTION #9: WHEN CAPITAL FORBEARANCES ARE ISSUED, THEY SHOULD PROHIBIT GROWTH AND REQUIRE THAT THE THRIFT LIMIT ITS ACTIVITIES TO RESIDENTIAL MORTGAGE FINANCE.

ACTION #10: DELEGATE AUTHORITY, WITH APPROPRIATE BANK BOARD GUIDELINES, TO THE DISTRICT FEDERAL HOME LOAN BANKS TO RESOLVE FSLIC CASES WITH UP TO $500 MILLION IN LIABILITIES OR WITH A RESOLUTION COST OF UP TO $50 MILLION.

ACTION #11: REQUIRE ALL CAPITAL CONTRIBUTIONS TO BE IN CASH OR CONVERTED TO CASH.

ACTION #12: TIGHTEN THE REGULATIONS SO THAT LOANS TO ANY ONE BORROWER CANNOT EXCEED THE GREATER OF 25% OF GAAP CAPITAL OR $500,000.

ACTION #13: LIMIT THRIFT INVESTMENTS IN MORTGAGE DERIVATIVES, PARTICULARLY, THOSE MADE BY WEAKLY CAPITALIZED FIRMS.

ACTION #14: LIMIT THE USE OF JUNK BONDS, ESPECIALLY BY WEAKLY CAPITALIZED THRIFTS.

ACTION #15: REQUIRE IMPROVED REPORTING AND MONITORING OF INTEREST RATE RISK WITHIN THE THRIFT INDUSTRY.

If we accomplish nothing else with our appearance here today, we hope that you will encourage the Bank Board to take these immediate remedial actions which are essential if the losses facing the FSLIC are to be contained. We also hope that you will agree with us that the more than 2,000 healthy thrifts operating across the nation today continue to serve a vital role in the housing finance system. The thrift system can be fixed and doing so will be of great benefit not only to America's home buyers and savers, but also, to all of those associated with housing today.

HOW WE GOT HERE

For 50 years after it was established in the early 1930s, deposit insurance and the financial institution system worked remarkably well. Bank runs and panics, which had been commonplace in the nineteenth and early twentieth century, became a thing of the past. The savings institution system, dedicated to home finance, was able to provide the funds to satisfy the huge postwar pent-up demand for housing and made America among the best-housed countries in the world.

MISTAKE #1: THE DEREGULATION PROCESS OF THE EARLY 1980s WAS NOT WELL THOUGHT OUT AND WAS PURSUED ON AN AD HOC BASIS WITH ABYSMAL TIMING. AS A RESULT, IT CREATED A HUGE COST WHICH WAS BORNE ENTIRELY BY THE THRIFT INDUSTRY.

The soundness of the system was posited on two very simple assumptions: relatively stable economic conditions (particularly, stable interest rates) and tight controls on what institutions could pay for deposits and what activities they could engage in.

In the inflationary conditions of the 1970s following the Vietnam war and the oil embargo, the first of these conditions disappeared. The resulting high open-market interest rates made the controlled rates paid by financial institutions uncompetitive with those paid by unregulated entities such as money market mutual funds. Small savers complained about not receiving competitive rates of interest from their local financial institutions.

The result was a call for deregulation, for lifting the controls which were seen as making insured financial institutions uncompetitive. The time was ripe for such a call; deregulation fever was in the air. Academic observers had always decried as inefficient the regulated framework under which financial institutions operated. Other industries, such as the airlines and trucking, were also being freed from government supervision and regulation.

As a result, starting in mid-1978, the process of lifting controls on what institutions could pay for deposits was begun. However, the consequences of deregulation -- how deposit insurance might work in a deregulated environment -- was not thought out, the process was pursued on an ad hoc basis, and the timing was abysmal.

Outside of its bad timing, the deregulation process had three major flaws:

1. By law, savings institutions were required to hold the bulk of their assets in long-term, fixed-rate assets which were funded by short-term deposits. Lifting the ceilings on deposit rates and tying them to open-market interest rates meant that the operating costs of savings institutions were tied to the short-term movement of interest rates while their income changed very slowly.

   What should have been done was to allow savings institutions the authority to make variable rate mortgages several years before the deposit side of their structure was deregulated (since it takes several years to turn over a mortgage portfolio). Instead, the exact opposite to what was needed was done, with the deposit side being deregulated several years before the asset side.

The repeated requests of the thrift industry for authority to make viable adjustable rate mortgages and thus create viable assets for a deregulated environment were turned back due to housing industry and consumer opposition in Congress.

2. The regulatory system was not beefed up to handle the new situation. Private-sector institutions should not be allowed to use the government's seal without some restraints. Prior to 1978 these restraints consisted of a combination of curtailing activities that could be engaged in and monitoring closely what institutions did. If the restrictions on powers were to be largely eliminated, then a bigger burden would be placed on the examination and supervisory system to ensure that insured institutions were not using their broader powers unwisely. This was all the more necessary since increased technological capabilities and evolving markets enhanced the ability of market participants to shift financial assets around with great rapidity and to develop new and exotic products.

   But there were no provisions made for the necessary beefing up to the oversight system. In fact, such a buildup was actively opposed by the OMB.

3. Some of the pitfalls inherent in the above two mistakes were magnified by the fact that the real capital in the business was very low. The role of capital is not only to act as a safety cushion to creditors, it also constrains the buildup of risk asset portfolios. The capacity for a financial firm to take on additional risky assets is supposed to run into a limit based on the capital ratio that is either required by the marketplace or -- in a regulated industry such as thrifts or commercial banking -- mandated by regulators.

In the late 1970s, thrifts had capital that, with hindsight, was probably barely adequate for the risks they were taking if conditions did not radically change. But conditions did change and the timing couldn't have been worse.

In late 1979, the Federal Reserve, under great domestic and international pressure to take a stronger stand against inflation, suddenly stopped trying to manage interest rates and concentrated on controlling the money supply instead. It was a radical, and ultimately successful, move. But the price was astronomically high interest rates for several years. Savings institutions suffered hemorrhaging operating losses and much of the real capital of the business bled away.

In December 1980 the industry had assets of $582 billion with a capital base (calculated by tangible capital assumptions) of $32.2 billion. Losses in the years that followed the interest rate revolution reduced thrift industry tangible net worth to a low of $3.8 billion by December 1982.

In sum, the ad hoc and badly bungled deregulation process of 1980 to 1982 was incredibly costly for the thrift business. It reduced industry capital by more than $28 billion. As a result, many thrifts entered 1983 greatly overleveraged and in a desperate need of earnings.

MISTAKE #2: BY THE END OF 1981, VIRTUALLY ALL CAPITAL DISCIPLINE HAD BEEN REMOVED FROM THE THRIFT BUSINESS. NEW CAPITAL-GROWTH REGULATIONS WERE NOT ADOPTED UNTIL JANUARY 1, 1985.

If an industry cannot meet a regulatory standard due to economic stress, one possible response is to lower the standard. This was the response of the Bank Board to the strains imposed by the deregulation process. The Federal Home Loan Bank Board under Chairman Jay Janis asked Congress to give it authority to vary the capital requirement of the business between 3% and 6% of deposits. In October 1980, the Bank Board used the new authority granted it under the Depository Institutions Deregulation Act of 1980 to reduce thrift capital requirements to 4% of liabilities. The Bank Board also removed the so-called Asset Composition and Net Worth Index which was an early effort to construct risk-related capital requirements.

The process of relaxing capital discipline in the thrift industry was continued under Bank Board Chairman Richard Pratt. In 1981, the Bank Board reduced the capital requirement of the business to 3% of deposits. The Board also specifically retained an old five-year averaging provision which, when coupled with the lowering of the nominal requirement to 3%, had the extraordinary result of requiring really less than 1% capital support for new assets in institutions growing rapidly -- and the way averaging worked was that the more rapid the growth rate, the lower the effective required capital support. Put another way, the 3% requirement and the five-year averaging meant that a dollar of capital (whether real or phantom) could be leveraged into more than six hundred dollars of risk assets.

Further, for newly chartered institutions, a 25-year phase-in rule was retained in their minimum capital requirement which gave these firms, even when they had virtually no net worth, the ability to grow rapidly and remain in capital compliance.

Of course, in 1981-82 the Bank Board was operating in a crisis atmosphere. Eighty percent of the nation's thrifts was losing money. The FSLIC had many more problems than it could deal with using its limited staff and resources.

This crisis atmosphere led the Bank Board to take actions to buy time for interest rates to decline. For instance, the Board eased accounting rules (e.g. it allowed institutions to sell below-market loans with the resulting loss being written off over a period of years rather than being recognized immediately) and actively promoted a loophole in GAAP accounting relating to the creation of goodwill in acquisitions. Frankly, this was done so that the Board could employ the vaporous incentive of allowing institutions to use the loophole to artifically boost reported income to encourage them to take problem cases off the FSLIC's hands. As a result, the credibility of thrift accounting was seriously damaged and an era of questionable accounting policies was spawned. (The Financial Accounting Standards Board, "FASB", acted to close this purchase accounting loophole in January 1983.)

The Bank Board under Chairman Gray began its efforts to re-institute capital discipline in the thrift business in early 1984. On February 15, 1984, the Bank Board proposed new net worth requirements which would have reaffirmed the 3%-of-deposits capital requirement and eliminated five-year averaging with some phase-out provisions. A vocal minority of thrift executives supported Chairman Gray. Still, thrift trade groups and many industry executives successfully opposed this proposal and asked that they be reproposed at a later date in a different form.

During late 1984, the Bank Board once again proposed new net worth requirements for the thrift business. By this time, with growing evidence of serious problems developing among a number of "high-fliers", an overwhelming part of the thrift business supported new capital requirements. On January 31, 1985 the Bank Board adopted new capital requirements tied to growth, with those growing at an annual rate in excess of 25% over a six-month period required to obtain special supervisory approval.

The removal of capital discipline and the delay in its reinstatement led to significant losses for the FSLIC. Thrift trade groups and many (not all) thrift executives must share the responsibility for these actions. But, ultimately, the industry cannot be expected to be its own regulator -- and under anti-trust laws, is probably not allowed to be -- so the thrift regulators who did not act to protect the safety and soundness of the thrift system must bear the brunt of the responsibility.

MISTAKE #3: THRIFT LENDING AUTHORITIES WERE EXPANDED TOO QUICKLY IN 1982 AND 1983 GIVEN THE REMOVAL OF VIRTUALLY ALL CAPITAL DISCIPLINE FROM THE BUSINESS AND THE BOARD'S INSUFFICIENT SUPERVISORY AND EXAMINATION RESOURCES. STATE LEGISLATORS AND REGULATORS EXACERBATED THE PROBLEM BY GRANTING ALMOST UNLIMITED AUTHORITIES.

As the liability-side deregulation process continued, it became obvious that thrifts had to have the ability to hold adjustable rate mortgages and shorter maturity assets if they were going to be viable. The Bank Board responded by taking numerous actions. A most helpful, though overdue, action was the authorization, finally, to make truly viable ARMs in April 1981. However, other actions, such as the elimination of all maximum loan-to-value ratios (August 1981) and the repeal of restrictions on using brokers to channel deposits to the most aggressive bidders for funds (March 1982), were to prove disastrous subsequently.

In October 1982, the Congress also tried to "help" out the thrift business with the passage of the Garn-St Germain Act which granted savings institutions the authority to invest in a broader range of assets. The Bank Board moved swiftly to implement the authorities granted in the Garn-St Germain Act, authorizing consumer loans up to 30% of assets, expanding the power to invest in commercial real estate loans to 40% of assets, and authorizing unsecured loans for commercial purposes.

In retrospect, it is obvious that the most risky of these actions was the combination of greatly expanded real estate authorities and the removal of loan-to-value ratio requirements. This made it possible for thrifts to make 100% loans on land held for development, speculative condominium projects and commercial real estate while front-ending substantial fees to boost income. This situation was compounded by the Bank Board's inadequate supervisory and examination system, by the removal of both capital and accounting discipline from the thrift business, and by the removal of the limits on the use of brokered deposits.

Not to be outdone by their federal counterparts, state legislatures and regulators acted to significantly increase thrift powers. In several instances, these new state authorities went far beyond those granted to federal institutions. Thus, a competition in laxity of regulation and supervision developed between state and federal thrift regulators.

By late 1983, the Bank Board and many in the business began to realize that the mixture of broad powers and no capital discipline could lead to big problems for the FSLIC. Efforts to regain control of the situation after it had acted too liberally became quite a struggle. For example, in late 1983, the Board under Chairman Gray made public its concerns about the use of brokered deposits and the rapid growth they made possible. In March 1984, the Bank Board acted to deny FSLIC insurance to brokered deposits.

The industry as a whole supported Chairman Gray's efforts although a few firms objected vehemently. The Securities Industry Association, however, strongly opposed the Bank Board's action and sued in federal district court -- only one of many instances in which Wall Street used the deregulation process for huge gains at the expense of the thrift business and the FSLIC. On June 10, 1984, the federal court ruled that the Bank Board's brokered deposits regulation exceeded its authority. Subsequently, the Bank Board withdrew its regulations.

As mentioned before, the Bank Board adopted new capital requirements tied to growth on January 31, 1985. Similarly, during early 1984, the Bank Board also became aware of the problems that were developing involving direct investments. A few thrifts had well-publicized problems with high risk and unusual investments in such things as ski resorts, water parks, fast food chains, gambling casinos, stud and windmill farms. They also had experienced some difficulties as direct investors in land development projects and some building activities.

In May 1984, the Federal Home Loan Bank Board proposed regulations which would limit direct investments by thrift institutions. Although most of the business supported Bank Board efforts to limit direct investments, the few in opposition generated considerable political heat. The Bank Board and the Congress held hearings. The institutions involved in these activities vehemently opposed any limitations on thrift direct investments.

This political battle delayed the Board's efforts and led it to repropose its direct investment limitations in December 1984. The Bank Board's direct investment regulation was finally issued on January 31, 1985 and became effective in March 1985. Even when it did become effective, however, the Board's regulation did not include land loans, speculative condominium loans and nonresidential construction loans with very high loan-to-value ratios. (Such an expansion in the direct investments regulation did take place in July 1987.)

Along with direct investments, thrifts became more heavily involved in what became known as "ADC loans". These were acquisition, development, and construction "loans" that had many of the characteristics usually associated with a direct or equity investment. Usually, these "loans" involved loan-to-value ratios of 100% or more, giving the borrower virtually no assets at risk in the project.

Because ADC loans were treated as loans instead of investments, lenders were able to charge substantial up-front fees and use them for an immediate income boost. Early delinquencies were avoided as lenders structured these deals so that the first two or three years of interest payments, plus the up-front fees, were also included in the original "loan". This postponed accounting recognition of loan losses.

The accounting community, the American Institute of Certified Public Accountants (AICPA) and FASB, did not address the issue of whether these ADC financings were loans or investments for some time. The AICPA did issue an initial "Notice to Practitioners" concerning such financial transactions in November 1983 and a second notice was issued in November 1984.

Still, even these actions by the AICPA did not provide sufficient guidance as far as thrift ADC lending was concerned. In April 1985, the Bank Board adopted a regulatory policy dealing with the accounting treatment of thrift ADC activity.

By acting too liberally and too rapidly to expand thrift powers, the Bank Board allowed special interest groups to develop, whose goal was to perpetuate certain risky activities. Delays caused by these powerful interest groups in the area of direct investments and ADC loans together with the outright failure to curb the use of brokered funds created significant losses for the FSLIC.

MISTAKE #4: IT BECAME TOO EASY FOR UNDESIRABLE ACQUIRERS, ATTRACTED BY THE LURE OF VASTLY EXPANDED POWERS, TO START OR GAIN CONTROL OF THRIFT INSTITUTIONS, PUTTING UP LITTLE REAL CAPITAL IN THE PROCESS AND EXHIBITING A PROPENSITY TO ENGAGE IN SELF-DEALING AND OTHER QUESTIONABLE PRACTICES.

Another factor which compounded the situation in the early 1980s relates, once again, to the Bank Board's response to the need of the FSLIC to resolve problem cases. For example, the Board allowed new investors willing to acquire problem institutions to do so with little new capital and much of that in the form of real estate or other assets. The ability to contribute raw land on the basis of an appraisal instead of cash was particularly appealing to developers and other non-traditional thrift acquirers. The Board proposed regulations in late 1983 requiring capital contributions to be in cash but never adopted or reproposed such a measure.

The Bank Board also was very liberal with respect to its powers under the Change in Savings and Loan Control Act of 1978. Instead of carefully screening acquirers, the Board rarely contested such acquisitions. In 1981, there were 42 notices of changes in control submitted to the Board and none were disapproved. Again in 1983, the Board did not disapprove any of the 108 such notices filed.

The Federal Home Loan Bank Board is required by the Change in Control Act to report on its experience with it each year. In what must constitute one of the most egregious examples ever of blindness and inattention to a major emerging problem, in its annual reports from 1981 through 1984 (the latter report being issued at the end of August 1985 when widespread problems had to be already apparent), the Board used, verbatim, the same boilerplate language each year:

> "The savings and loan industry remains predominantly mutual, rather than stock in organization, consequently FSLIC administration of the Act has generally been uneventful. ... The figures would appear to reveal that the Act has had far less impact on acquisitions of control in the savings and loan industry than in the commercial banking industry, where Federal regulators have received hundreds of formal notices. ... Post-acquisition experience has been generally unexceptional."

It was not until its 1985 annual report (issued in July 1986) that the Bank Board showed any alarm as to the acquisition of savings institutions by unscrupulous individuals:

> "It has been the Bank Board's experience that the perceived attractiveness of thrifts unfortunately also has led to efforts by financially weak or unstable companies and unqualified and dishonest individuals to acquire and exploit thrift institutions. As a result, substantive as well as procedural weaknesses in the regulations implementing the Control Act too often have been abused, in some cases leaving the FSLIC to pay the price for such shortcomings."

By the time of this expression of concern, of course, billions of dollars in damage had already been done to the FSLIC because of the regulatory laxity in policing acquisitions.

The Pratt Board also made it much easier to gain control of a thrift charter in other ways. For years, it was required that a thrift have a minimum of 400 stockholders. No one individual was allowed to own more than 25% of an institution's stock. By removing these restrictions, the Board made it possible for entrepreneurs to invest modest sums with few if any partners and start or acquire control of a thrift institution.

The vast new powers of the thrift charter, the ease with which control could be obtained, and the modest capital required were all promoted by the Bank Board in the investment community. This may have reduced the FSLIC's resolution costs in the early 1980s but, in retrospect, it also significantly increased FSLIC's risk and loss exposure for the future which ultimately resulted in substantial additional losses.

MISTAKE #5: THE OFFICE OF MANAGEMENT AND BUDGET OPPOSED EFFORTS TO INCREASE THE BANK BOARD EXAMINATION STAFF IN 1983 AND 1984 EVEN THOUGH THE COST OF SUCH STAFF (SALARIES, ETC.) WAS TO BE PAID BY THE THRIFT INDUSTRY.

Although thrift powers were expanded and the capital discipline in the business was removed, not much was done to expand the Bank Board's supervisory and examination staff. In fact, on May 5, 1983, the Bank Board in testimony before the Senate Appropriations Committee requested 38 fewer field examiners for fiscal 1984 than in fiscal 1983.

By 1984, however, the Bank Board recognized that its examination and supervision staff was totally inadequate. The Bank Board repeatedly asked the Office of Management and Budget for authority to hire new examiners and supervisors in 1984 and early 1985. These requests were just as repeatedly denied by the OMB.

There was widespread support in the industry for the Bank Board's request for more people. The business recognized that it would have to pay for these additional people but realized that the long-term savings derived from better supervision and examination was well worth the price. To this day, we cannot understand the OMB's costly opposition to these requests.

In June 1985, the Bank Board acted on its own and transferred the thrift examination function to the district Federal Home Loan Banks and, thus, freed them from OMB limitations. The Board immediately increased examiner compensation, reduced personnel turnover, and began to add new people. In the second half of 1985, the number of examiners in the system increased 35% from 747 in June to 1,006 by December. During 1986, the combined examination and supervisory personnel of the Federal Home Loan Bank System rose 55% to 2,074.

The OMB's singleminded opposition in this area significantly delayed the Bank Board's efforts to improve the quantity and quality of thrift supervisory and examination personnel. In turn, this delay was very costly to the FSLIC as the inadequacies in the system went uncorrected.

MISTAKE #6: THE BANK BOARD MADE LITTLE USE OF ITS BROAD AND DISCRETIONARY SAFETY AND SOUNDNESS AUTHORITY IN THE EARLY 1980s TO PREVENT EXCESSIVE GROWTH AND TO RESPOND TO OTHER EARLY WARNING SIGNS OF POTENTIAL THRIFT INSTITUTION FAILURES.

As the thrift industry entered 1984, it was obvious that the stage was set for significant problems to develop. The removal of capital discipline had led to rapid growth in many institutions. Many new operators had entered the business and made it clear they planned to exploit the situation by taking advantage of the expanded thrift powers and the ability to become highly leveraged. The Bank Board's supervisory and examination system was clearly not up to the task of dealing with these challenges.

In retrospect, it is clear that the safety of the thrift system and the continued viability of the FSLIC depended upon the willingness of the Bank Board to act quickly and to use its broad discretionary powers to protect safety and soundness and its ability to reinstitute capital and accounting discipline. Unfortunately, the Board was notably unsuccessful in both of these vital areas. As a result, many in the business complained that there was no sense of urgency at the Board or in the examination and supervisory process. The limited resources of the Bank System were not targeted to areas of obvious abuse but simply continued to operate as if things were normal.

The weak nature of the supervisory and examination operation of the Bank Board is further reflected by a general lack of enforcement. The Board did not use its temporary cease-and-desist (C & D) powers to stop unsafe and unsound activities. In 1983, the Board issued only 17 C & D orders. This number decreased to 13 such orders in 1984, before it increased to 28 in 1985. Almost all of these C & D orders were issued with the consent or voluntary approval of the institutions involved.

The use of the Bank Board's power to remove individuals from institutions was also used sparingly. In 1983, the Board removed 21 individuals from institutions while 22 were removed in 1984 and again in 1985.

Formal investigations were also relatively small in number. The Office of Enforcement held 17 such investigations in 1983 and 24 in 1984. In 1985, there were 30 formal investigations.

The number of supervisory agreements did increase sharply over this time period. In 1983, only 39 such agreements were completed. The number of supervisory agreements totaled 116 in 1984 and then increased further to 233 in 1985. Unfortunately, this less forceful approach by the Bank Board led to frequent delays and much circumventing and, in some cases, violations of these agreements.

Perhaps the clearest indication of the Bank Board's unwillingness to act in time in a discretionary way to protect the system is documented in Congressional hearings into the failure of two institutions — Empire Savings and Loan of Mesquite, Texas and Beverly Hills Savings and Loan Association.

Empire Savings was closed on March 14, 1984 when it had $308.9 million in deposits. Less than two years earlier on June 30, 1982, this institution had only $17.3 million in deposits. The fact that the Bank Board allowed this institution to pursue such a reckless growth pattern is only one of the many aspects of regulatory and supervisory neglect surrounding the failure of Empire Savings.

On August 6, 1984, the Committee on Government Operations of the House of Representatives issued its report on the failure of Empire Savings and its evaluation of the Bank Board's supervision of the institution. Among the report's most significant findings were the following:

* "The FHLBB's failure to take strong administrative and enforcement action against Empire and its principals between late 1982, when it first learned of the association's abusive practices, and late 1983, when it first took effective action, represents an instance of significant regulatory neglect."

* "Although the Bank Board's regular supervisory examination of Empire as of October 7, 1982, disclosed 'significant examination factors rated as either material deficiencies or requiring immediate forceful supervision action,' no effective supervisory action was taken by the FHLBB until late 1983. There was failure at every supervisory level."

* "The FHLBB knew a great deal about Empire's growing financial morass early in 1983 but it did virtually nothing to enforce its extensive supervisory and regulatory powers until quite late in 1983."

These findings lead to a number of significant recommendations including:

* "There should be immediate onsite evaluation of institutions exhibiting excessive growth or significant adverse changes from past performances."

* "The Office of Examinations and Supervision should institute a system to monitor excessive growth."

* "The FHLBB allows problems in regulated thrifts to drift because the Board does not have a uniform schedule of sanctions and a timetable for imposing them. In order to remedy this, supervision of problem thrifts should be increased by requiring the imposition of a predetermined schedule of supervisory actions."

- "The FHLBB should take steps to improve its early warning system based on computerized data supplied to it on a regular basis to alert it to potential problems. More attention needs to be paid to alert examiners and supervisory personnel to special problems which the data may disclose to adversely rated thrifts. The Bank Board in Washington should more closely monitor the manner in which regional supervisory offices utilize the information made available."

The 1984 findings and recommendations of the Committee on Government Operations are extremely important even though more than four years have passed since they were made. So is the fact that many of the Committee's recommendations were not implemented during the years that followed. It should have been an embarrassment to the Bank Board that the Congress had to make such basic recommendations and is disturbing that many similar recommendations could still be made today.

Another example of the Bank Board's failure to act came to light with the failure and investigation of Beverly Hills Savings and Loan Association which was closed on April 23, 1985. As was the case with Empire Savings, this institution experienced incredible growth. At the end of 1981, Beverly Hills Savings had assets of $611 million. Three years later at the end of 1984, its assets totaled $2.8 billion. More than $1.0 billion of its 1984 assets were in direct investments, ADC (acquisition, development and construction) loans and noninvestment grade bonds.

During June of 1985, the House Subcommittee on Oversight and Investigations of The Committee on Energy and Commerce held hearings concerning the collapse of Beverly Hills Savings. During those hearings a number of important facts surfaced including:

- In the April 30, 1982 examination report of Beverly Hills an examiner wrote "The association has operated at a loss for each of the past 17 months. . . .If the trend continues net worth will be depleted by November 1983."

- Beverly Hills Savings and Loan received an adverse rating of "3-C" as a result of the April 30, 1982 examination and as a result of the February 25, 1983 examination. The "3-C" was given when there were material deficiencies in a series of nine different areas.

- On March 25, 1983 a FHLBB memo reviewing the 1983 operating plan of Beverly Hills stated that: "Historically, the association's business plans have been very optimistic and of limited usefulness in monitoring the association's operations. It remains to be seen whether the subject 1983 business plan will prove to be an exception."

- In a July 12, 1984 internal memorandum involving the supervision of Beverly Hills Savings and its request to accept brokered deposits, the supervisor noted that as of May 31, 1984 Beverly Hills Savings had regulatory net worth equal to 2.0% of its total liabilities and was subject to regulatory limitations.

- Despite numerous problems over a number of years going back to early 1982, Beverly Hills Savings was allowed to grow rapidly and was not placed into the Bank Board's Management Consignment Program until April 1985.

The supervisory neglect associated with the rapid growth and failure of Beverly Hills Savings was a lot like that involving Empire Savings of Mesquite, Texas. In retrospect, it is clear that these were not isolated instances but instead provided a clear indication of the significant problems the Bank Board was having in dealing with the deregulated environment.

MISTAKE #7: THE BANK BOARD DID NOT ENFORCE ITS OWN 1985 NET WORTH AND MAXIMUM GROWTH REGULATIONS AND FAILED TO ADOPT OTHER NEW REGULATIONS DESPITE STRONG INDUSTRY SUPPORT OF THE NEED TO DO SO AND AS A RESULT DID NOT CONTAIN THE PROBLEMS FACING THE FSLIC.

As the business entered late 1985, it became clear that the issue of funding the FSLIC had to be addressed. The Federal Home Loan Bank Board had begun charging a special FSLIC assessment in early 1985. The Chairman of the Federal Home Loan Bank Board also insisted that the FSLIC had to be recapitalized through a large infusion of cash from the industry.

During late 1985, the U.S. League of Savings Institutions created a special committee which it called the "Task Force on FSLIC Issues" to study this question and make recommendations. (Gerald Levy was Chairman of this Task Force while Herbert Sandler and Donald Shackelford were members.) The first thing the Task Force reviewed was the Bank Board's efforts to contain the problems facing the FSLIC.

Given the new net worth rules put in place in January 1985 and the direct investment limitations of March 1985, the Task Force expected to find that the Bank Board's supervisory and examination staff had the situation under control. Unfortunately, data for the first half of 1985 showed this was not the case. For example, the Task Force found that 443 institutions with assets of $103.7 billion grew at an annual rate of more than 25% over the first six months of 1985.

Under the Bank Board's growth regulations, institutions were required to obtain specific supervisory approval to grow at an annual rate of 25% or more in a six month period. Some exceptions to the 25% maximum rule could be expected but not over 400. Further, the Task Force discovered that many of these rapid growers were heavy investors in high risk assets, often had very high goodwill ratios, and tended to be big users of brokered deposits.

Representatives of the Task Force met with Chairman Gray to express their concerns over the seeming inability of the Bank Board to regain control of the situation and over the continuation of past supervisory and enforcement inadequacies. Meetings were also held with representatives of the Dallas Federal Home Loan Bank because of the Task Force's special concerns about conditions in that district.

The Task Force was particularly concerned about 45 institutions with more than $500 million in assets that grew at an annual rate of more than 25% in the first half of 1985. Indeed, history shows that this concern was justified. As shown in Exhibit 1, twenty of these institutions had negative tangible GAAP equity as of March 31, 1988. The tangible capital of these institutions fell from a negative $65 million at year-end 1984, to a negative $279 million at the end of June 1985. By March 1988, this negative equity hole had widened to a negative $5.9 billion.

EXHIBIT 1

FAST GROWERS IN THE PAST ARE MAJOR PROBLEMS TODAY

(DOLLARS IN MILLIONS)

Institution Name	Location	Tangible Capital as of March 1988	Liab. as of March 1988	GAAP Capital As of March 1988	Annualized Asset Growth 1st half of 1985	Tangible Capital as of Dec. '84	Tangible Capital to Assets as of Dec. '84
Sunbelt SA of Texas	Dallas, TX	-$1,699	$4,042	-$1,696	202%	-$13	-0.91%
Independent American[1]	Irving, TX	-699	1,635	-696	63%	-67	-5.72%
American Diversified[2]	Lodi, CA	-656	1,166	-656	27%	27	3.36%
University SA	Houston, TX	-623	4,232	90	26%	87	2.72%
Bright Banc SA	Dallas, TX	-562	4,795	-232	519%	33	5.58%
Commodore Savings	Dallas, TX	-435	1,151	-433	55%	12	2.06%
Security S & LA	Scottsdale, AZ	-291	1,076	-291	44%	-48	-5.24%
Sandia FS & LA	Albuquerque, NM	-287	1,308	-216	90%	-41	-6.42%
United SA of Texas	Houston, TX	-188	4,928	37	27%	-50	-1.28%
Commonwealth Savings	Houston, TX	-179	1,933	-172	52%	34	3.50%
Meritor Savings Bank[3]	Arlington, VA	-51	718	60	489%	-40	-15.07%
Blue Valley FS & LA	Kansas City, MO	-38	931	-38	27%	15	1.93%
Champion FS & LA[4]	Bloomington, IL	-37	2,399	77	54%	-88	-6.40%
First FS & LA	Austin, TX	-31	1,004	-18	84%	42	7.05%
Murray Savings	Dallas, TX	-26	1,436	-14	81%	30	4.88%
Allenpark Federal[5]	Houston, TX	-24	234	-24	62%	6	0.81%
Occidental FSB	Omaha, NE	-22	730	-17	79%	8	1.81%
Montfort Federal[6]	Dallas, TX	-13	1,222	-13	27%	30	3.31%
Charter FS & LA	Bristol, VA	-2	868	53	85%	-21	-4.84%
Altus Bank, A FSB[7]	Mobile, AL	-0	2,567	97	44%	-21	-1.56%
Totals/Averages		-$5,864	$38,377	-$4,104	73%	-$65	-0.30%

[1] Placed in the MCP in May 1987.

[2] Liquidated by FSLIC in June 1988. Had been an MCP.

[3] Old name was Northern Virginia S&L.

[4] Old name was Bloomington Federal.

[5] Placed in the MCP April 1986. Old name was Mainland Savings.

[6] Old name was Vernon Savings which was made an MCP in March 1987. Montfort Savings, its successor MCP, was created in November 1987.

[7] Old name was First Southern Federal.

How some of these institutions managed to grow so rapidly is not understandable. Nine of the 20 had negative tangible equity at the end of 1984 -- before they even embarked on their rapid growth. The deterioration of some of these institutions is frightening. Consider:

- Sunbelt Savings in Texas at year-end 1984 had liabilities of $1.3 billion with a negative $13 million in tangible capital. By March 1988, its liabilities stood at $4.0 billion with a tangible capital of negative $1.7 billion.
- Bright Banc of Dallas, through ordinary growth and mergers, increased in size from $488 million at year-end 1984 to $4.8 billion at the end of March 1988. Over the same period, its tangible capital fell from a positive $33 million to a negative $562 million.
- American Diversified in California was placed in the Bank Board's Management Consignment Program in February 1986. It was recently liquidated by the FSLIC at a cost of $1.14 billion.
- Montfort Savings is a newly-chartered institution which took over the remains of the failed Vernon Savings. Vernon Savings grew from $871 million to nearly $2 billion at its peak. It became an MCP in March 1987, and its deposits were transferred to Montfort Savings in November 1987 at a cost to FSLIC of $1.2 billion. The problem of Vernon Savings has still not been completely resolved.

The Task Force made it clear to the Bank Board that the healthy, well run institutions in the business could not be asked to recapitalize the FSLIC at the same time as several institutions were allowed to continue to run rampant. Task Force members were shocked and outraged that the healthy savings institutions were not only being asked to pay to resolve problems they did not create, they were asked to do so while it was obvious that little was being done, even then, to keep the problem from getting bigger. Unless tight controls were placed on these institutions, the Board was asking for a blank check on the industry's already far too weak capital position.

Chairman Gray responded to the Task Force with a promise that the Bank Board would act immediately to ensure that the problems facing the FSLIC were contained and that risks of future added costs would be minimized. He asked the Task Force to accept his pledge in this regard and to move ahead and develop a plan to recapitalize the FSLIC using industry and Bank System resources.

In March of 1986, the Task Force On FSLIC Issues put forth its plan for recapitalization of the FSLIC. The second paragraph on the first page of that report entitled, "A Comprehensive Strategic Plan For The FSLIC" states:

> "The first thing that must be done is to stop new problems from developing. The Federal Home Loan Bank Board, under Chairman Edwin Gray, had done a number of things which should help, including implementing new net worth, direct investment and de novo institution regulations; beefing up the supervisory system; moving the examinations staff out of Washington, D.C.; and creating a new Office of Enforcement at the Bank Board. Even with these strong measures in place, still more must be done."

EXHIBIT 2: INSOLVENT TEXAS THRIFTS GREW RAPIDILY IN THE PAST AND CONTINUE TO DO SO TODAY...

	Annualized Liability Growth				
Date	Under 0%	0%-10%	10%-25%	Over 25%	Total
12/84 to 3/85	32	29	28	42	131
3/85 to 6/85	25	34	27	46	132
6/85 to 9/85	34	28	29	41	132
9/85 to 12/85	49	31	25	27	132
12/85 to 3/86	32	25	40	34	131
3/86 to 6/86	46	35	26	24	131
6/86 to 9/86	47	33	29	23	132
9/86 to 12/86	71	30	21	10	132
12/86 to 3/87	51	36	27	18	132
3/87 to 6/87	49	28	38	17	132
6/87 to 9/87	51	43	25	13	132
9/87 to 12/87	29	50	41	12	132
12/87 to 3/88	26	43	47	16	132

Note: Only 131 institutions are listed for the period of 12/84 to 3/85 because Park Cities Savings Association was a De Novo institution in March of 1985. Only 131 institutions are listed for the periods 12/85 to 3/86 and 3/86 to 6/86 because information for Mainland Savings Association, an MCP, was not released in March 1986.

The Task Force report goes on to call for the Bank Board's supervisory and examination staff to adopt an "instant response" mode. Also recommended was the development of a new problem targeting system, the creation of a National Special Strike Force of supervisory agents, more delegation to principal supervisory agents, a review of the Change of Control Act and tightening of the loans-to-one-borrower regulations. Significantly, the Task Force went on to recommend that the Management Consignment Program institutions (MCPs) and Phoenix institutions should be operated in a shrinkage mode. (Many of these same recommendations had been made to the Board repeatedly by individual thrifts at earlier points in time.)

The Bank Board did respond by initiating an immediate and wide-ranging examination of Texas savings institutions. It did not, however, follow up with an organized plan to contain the situation until FSLIC recapitalization legislation could be passed. The fact that the Board did not put a halt to the growth problem, even after new capital/growth regulations were adopted in January 1985 and Chairman Gray's promise of late 1985, can be seen from various statistics:

1. In most quarters from the beginning of 1985 to the first quarter of 1987, between 400 and 500 institutions grew at an annual rate exceeding 25%.

2. In the first quarter of 1985, there were 49 GAAP insolvent thrifts growing at an annual rate of more than 25%. This number subsequently declined to a low of 19 but, as of the first quarter of 1988, was back up to 38. There is a similar pattern of institutions growing at annual rates of between 10% and 25%, with the number of insolvent institutions growing at these relatively rapid rates standing at 112 in the first quarter of 1988.

   Looking at this in another way, 37% of GAAP insolvent institutions were shrinking in size in the first quarter of 1985. Three years later, only 33% of the 501 GAAP insolvent thrifts were shrinking. Obviously, there has been a notable lack of progress.

3. When industry representatives met with Chairman Gray in late 1985, they not only complained about a lack of control over the FSLIC problem in general, but also indicated their special concern about growth in the Dallas Federal Home Loan Bank District. The energy problems in the Southwest were apparent at this point as was the potential for overbuilding. The business stressed that growth had to be controlled in the Southwest if the costs to the FSLIC were going to be manageable.

   During the first quarter of 1985, 42 of the 132 Texas thrift institutions that are now insolvent were growing at an annual rate of more than 25% (Exhibit 2). At that stage, quite a number of the 132 institutions were still solvent and, in fact, 48 reported GAAP capital in excess of 3%.

   By the first quarter of 1988, when all 132 were insolvent, 16 were still growing at more than a 25% annual rate, up from a low of 10 in the fourth quarter of 1986. Thus, even as their capital positions declined, many of these now insolvent thrifts were allowed to grow at a rapid rate.

On the other hand, the percentage of this group actually shrinking was lower in the first quarter of 1988 than it was during the first quarter of 1985. In other words, when most of these 132 thrifts had positive GAAP net worth, 24% decided to shrink their asset position. When most were insolvent during the first quarter of 1988, the Bank Board required only 20% to shrink and allowed the remainder to grow.

Of all the mistakes we have discussed, the failure to contain the problem since it became widely recognized in 1985 is probably the most inexcusable and the least understood by those outside the business. During the past few years, the overwhelming majority of thrifts have repeatedly asked for stronger and swifter supervisory action by the Bank Board. Had those requests been heeded and acted upon, the size of the problem facing the FSLIC today would be lower by many billions of dollars.

INDIVIDUAL INSTITUTION CASE STUDIES: A FAILURE OF SUPERVISION

The fact that the Bank Board did not contain the FSLIC problem is also reflected by numerous individual institution experiences resulting in significant losses. The largest of these case studies involves the Bank Board's direct supervision of Financial Corporation of America (FCA).

During the early 1980s, FCA was the holding company for State Savings and Loan Association of Stockton, CA. At the end of 1980, State Savings had total assets of $1.7 billion. Over the high interest rate period of the next few years, State Savings of Stockton grew rapidly, with its total assets reaching $3.7 billion at the end of 1981 and increasing further to $5.8 billion at the close of 1982. Given the rapid growth of State Savings and its strong reported earnings during this difficult period, many people in the business questioned its asset quality. It was a common staple of conversation that "trash for cash" deals were being solicited by its loan officers. Many healthy thrifts repeatedly warned supervisory personnel of the dangers posed by State Savings. They were often told that they were just jealous of their new aggressive competitors.

State Savings of Stockton continued to expand rapidly in 1983 and had assets totaling $10.2 billion by August of that year. At this point, the Bank Board approved FCA's acquisition of First Charter Financial Corporation and its subsidiary American Savings. The resulting savings institution subsidiary of FCA took the name American Savings.

First Charter Financial Corporation was a very healthy institution -- "a model of the old-style thrift, with a wealth of stable, low-cost deposits gathered from a widespread branch system, a high capital-asset ratio, and conservative lending practices," according to the Wall Street Journal. As a result of this merger, FCA put $1.2 billion of goodwill on its books while it increased its total asset holdings to $21.6 billion as of December 31, 1983. Just one year earlier, on December 31, 1982, the company reported total assets of only $5.8 billion. -- it might be noted that the institution had only $645 million in total assets five years earlier, at the end of 1977.

When the industry continued to complain about FCA's excessive growth and the Bank Board's approval of the First Charter acquisition, it was told that the situation was under control. The new FCA was going to manage its growth and meet new, higher capital requirements. Still, by June 1984, FCA's assets had reached $31.4 billion, an increase of $10 billion in just six months. It never reached the new net worth requirements established in its 1983 merger.

At this point, many thrifts complained about FCA's use of questionable accounting techniques. On August 15, 1984, FCA bowed to pressure from the SEC and restated its second quarter earnings to show a second quarter loss of $107.5 million instead of an earlier reported profit of $31.1 million. Soon, a run developed and the Bank Board was forced to act. The decision was made that FCA was simply too large to put into liquidation. The Board replaced FCA's management and announced its strong support for the new operation of American Savings.

The Bank Board did not, however, eliminate the interests of FCA's stockholders and subordinated debt holders. The resulting conflict between FCA's obligation to its stockholders and the fact that it was a ward of the FSLIC probably led to some of the management mistakes which followed. Permitting stockholders to keep their interests in FCA was a major blunder.

Shortly after taking over, FCA's new management announced its plans to shrink the institution. As a result, FCA's assets peaked in the third quarter of 1984 at $32.5 billion. By year's end, the company's assets had fallen to $28.5 billion.

In early 1985, FCA announced that it would further reduce its assets by 18%. By December 31, 1985, FCA's assets had fallen to $27.4 billion. It did not reach its targeted shrinkage size of $24.5 billion, but it was clearly going in that direction. The firm control of the Bank Board as it approved FCA's quarterly operating plan and the strong supervisory control maintained by the Federal Home Loan Bank of San Francisco continued through the first quarter of 1986. The company ended the quarter with $26.4 billion of assets and $6.6 billion in mortgage-backed securities. At this point, it seemed clear that the management approach at FCA was aimed at shrinkage and minimizing the exposure of the FSLIC to additional losses.

All of this changed in the second quarter of 1986 as it became clear that FCA had adopted a new operating strategy. First, direct supervision of FCA was taken away from the Federal Home Loan Bank of San Francisco and transferred to Washington, D.C. The San Francisco supervisors had objected to FCA's new growth strategy proposal. Then, with Bank Board approval, FCA began the rapid acquisition of MBSs using reverse repurchase agreements (reverse repos) as a funding source. The resulting interest rate risk exposure was supposed to be offset by various hedging activities. Over the second and third quarters of 1986, the company added $10 billion in MBSs to its portfolio, increasing its MBS holding to 49% of its total assets. Over the same period, FCA's reverse repos went from $4.9 billion to $11.9 billion.

In general, the business responded with sharp criticism as FCA adopted this new strategy. It was pointed out that FCA was a very weak institution under direct Bank Board supervision. The proper course for such a company was to reduce its size, minimize its interest rate risk exposure, and if possible, liquidate its MBS portfolio while interest rates were low. It did not seem appropriate for the Board to allow FCA to adopt a highly risky position which could cost the FSLIC and, thus, the business, billions of dollars.

The business was also very concerned over the Bank Board's removal of direct supervision of FCA from the district Bank to Washington, D.C. It was not viewed as appropriate for the Bank Board to directly involve itself in the management of one institution. Further, removing existing supervision created a dangerous precedent which has been followed all too recently.

The Bank Board ignored industry criticism and approved the new FCA operating strategy. By doing so, the Board took a gamble on interest rates very similar to that it had so vocally denounced in the past. If interest rates stayed low, as FCA hoped, the institution's stockholders would benefit. If interest rates increased, the FSLIC would end up taking the losses.

The argument was made that if FCA won its bet, the FSLIC would also win because it would have one less problem case. However, the same holds true for any FSLIC-insured institution. In this case, the Bank Board was simply blinded to its function as insurer due to its direct role in the supervision and operation of FCA. As a result, it approved one of the largest interest rate bets by a financial institution in history.

At the end of 1984, when the Bank Board's management team was in control and reporting quarterly, the company held mortgage loans totaling $19.5 billion and MBSs of $5.3 billion. If the Bank Board had continued its shrinkage policies of 1985 and sold off its MBS portfolio, FCA would have ended 1986 with a mortgage loan portfolio totaling $12.6 billion and total assets of roughly $17 billion.

Further, it should be noted that when the Board put its own management into FCA, and provided that it must approve FCA's operations on a quarterly basis, the Bank Board greatly increased its direct responsibility for FCA's management. For a very weak institution to gain direct Bank Board approval to acquire $10 billion in MBSs in a period of six months and fund these new long-term assets with reverse repos defies belief.

At the end of 1986, FCA held MBSs totaling $17.4 billion. The reported market value of these holdings was $17.1 billion for a loss of $0.3 billion at year-end 1986. By the end of 1987, the company's MBS portfolio had increased to $18.2 billion but its market value had declined to only $16.6 billion. Thus, FCA's loss on its MBS holdings had increased to $1.6 billion by year-end 1987.

In early 1988, the new Bank Board under Chairman Wall ordered FCA to reduce its MBS holdings by $2.5 billion. Management of the institution complied under protest. The Bank Board also said it would like FCA to trim its MBS portfolio by a total of $12 billion by the end of 1988. Obviously, the new Board recognizes the risk such a portfolio represents for the FSLIC while FCA's stockholders also realize they have an interest in betting on interest rates.

Even the head of FCA, William Popejoy, has admitted the risk inherent in the institution's MBS portfolio. In a recent article in the American Banker (July 26, 1988), Mr. Popejoy is quoted as saying that:

> "The mortgage-backed securities portfolio, totaling about half of American's assets, represents a considerable interest rate risk. The portfolio is only partially hedged, and the hedges are expiring."

By the end of March 1988, FCA's holdings of MBSs had declined to $16.0 billion. The company reported a negative equity position of $227 million and goodwill of $980 million, creating a negative tangible net worth position of -$1.2 billion as of March 31, 1988.

Unfortunately, the supervisory errors made with FCA were not an isolated case. Numerous other examples can now be seen. Consider the following:

(1) Lyons Federal Trust and Savings Bank in Illinois was founded in 1922. By the middle of 1981, it still had assets of only $73 million. But by the time it was taken over by regulators in 1987, it had ballooned in size to $2.2 billion, a growth of about 3,000% in six years. At the same time, the institution invested these proceeds in many risky ventures which had been turned down by other lenders, such as a 100,000 square foot wharfside development project in South Florida. Lyons was even reported to have entered into a contract to buy 40,000 Hyundai personal computers which the institution intended to resell to other savings institutions throughout the country -- the success of this venture depended on every institution in the nation purchasing an average of over 12 each of a questionable brand of computer.

For years, thrift executives in the Chicago area had warned that Lyons was headed for disaster and that it would represent a major cost to the FSLIC. In May 1984, three and one-half years before Lyons officially failed, Crain's Chicago Business, a local business weekly, ran a major front-page story detailing Lyons' risky strategies -- its rapid growth, speculative lending and low capital position. At that time, the institution's assets were listed at $1.3 billion, almost $1 billion less than they would be when the institution failed.

Similarly, on August 20, 1985, the American Banker reported that "competitors -- and reportedly regulators -- have griped about Lyons' rapid growth." If people in the industry and the press knew about the situation, why didn't the regulators know or, if they did, why didn't they step in to stop the continued rapid growth and risky investments made by this institution? In the same story, Barbara Miller, Lyons' president at the time, is reported to have said "We're not afraid to make mistakes." Unfortunately, even though the industry complained for years about resulting strategy at Lyons, it is nevertheless now being required to pay for the cleanup.

(2) American Diversified Savings Bank of Costa Mesa, CA was formed in June 1983 by the merger of Tokay Savings of Lodi, CA, a $10.9 million institution as of December 1982, and a development company owned by Ranbir S. Sahni. In two years, it grew to more than $1 billion in assets with over 95% of their funding coming in the form of brokered deposits. With the help of 20 subsidiaries, American Diversified Savings Bank formed limited partnerships to buy real estate in enterprises such as: two ethanol plants, three wind farms, a contract to collect manure for a planned co-generation facility, a national paging system and a cable-TV system for its apartment complexes and other properties located in 22 states.

When Chairman Gray began preaching about the evils of deregulation and often cited the example of an institution that invested in wind farms, American's president decided to change its philosophy and undertake a more traditional path than it had in earlier years. The institution successfully argued to Bank Board officials that they needed additional expansion to make this new philosophy work. Chief among the Bank Board's concessions was an agreement to let American grow at 25% per year.

On February 14, 1986, American Diversified was declared insolvent and seized by the FHLBB. Pacific Savings Bank agreed to operate American under a management contract. Mr. Sahni, Chairman, and Lester Day, President, were terminated as officers of the institution but were allowed to remain as directors and shareholders, holding 96% and 4% respectively. The seizure was prompted by an audit that revealed:

- ** Many of American's loans were based on "inadequate or inflated appraisals."
- ** American failed to file reports with state and federal authorities "in a timely manner".
- ** American failed to establish loan loss reserves required by the regulators.

On June 6, 1988 federal regulators announced a record $1.14 billion payout to depositors of American Diversified Savings Bank. It had lost $21.5 million in the first quarter of 1988. Because of its lack of retail offices, the FSLIC had been unsuccessful in finding a buyer.

(3) Sunrise Savings & Loan of Boyton Beach, FL was founded by Richard Foxman, an attorney, in 1980. Mr. Foxman believed that a new thrift could be profitable if it were part of a network that could switch funds from one section of the country to another, engage in joint ventures with other network thrifts and broker loans too big for any one of the network members. Said Foxman, "We will create our own secondary mortgage market." The institution opened with assets of $4 million and reached $1.5 billion in assets five years later.

On April 25, 1985, CEO Rob Jacoby and two EVPs of Sunrise were reportedly forced out by regulators. On May 15, 1985, Sunrise reported a loss of $24.6 million for its fiscal quarter ended March 31. Nonperforming loans had ballooned to $85.7 million or 5.7% of assets compared to $44.8 million or 3.2% of assets six months earlier. Nine months earlier nonperforming loans totaled $11 million or 1% of assets.

In its filings with the SEC for the quarter ending 3/31/85, Sunrise revealed it was operating under a three-year supervisory agreement with the regulators in addition to an agreement reached the prior year. Under the new agreement, it could not grow by more than "25%" per year, it had to reduce its acquisition, development and construction (ADC) loans from 40% to 20% of its total loan portfolio and it could not make loans for land purchases that exceeded 95% of the purchase price.

The FHLBB seized control of Sunrise on July 18, 1985, and placed it under management contract with Amerifirst Federal Savings of Miami, Florida. It was declared insolvent due to poor underwriting practices, high risk direct investments and acquisition, development and construction (ADC) loans that went sour. Many of these ADC projects were in areas that were not developed but expected to grow; thus when the real estate market bottomed out in late 1984, Sunrise was forced to file a lot of foreclosures. CEO Jacoby maintained that Sunrise's ADC loans were not risky because developers pledged their personal wealth.

On September 13, 1986, the FHLBB announced the closing of Sunrise Savings. The FSLIC filed suit in Miami Federal Court seeking $250 million in damages from 27 former directors and officers and the former general counsel of Sunrise. Allegations of director wrongdoing included:

** Failing to require that appraisals be performed by reputable appraisers rather than by the borrower.
** Allowing a five-man committee to approve loans of over $1 million after April 1984 when a Supervisory Agreement required the full board to approve any loan over $500,000.
** Establishing an internal "audit committee" that failed to implement internal controls and relied on management's representations of compliance.
** Undertaking or participating in over 100 unsafe or unsound transactions.

(4) FirstSouth Federal Association of Pine Bluff, Arkansas aggressively sought local deposits, offering rates 100 basis points higher than its competitors. These funds were mainly used to book direct real estate investments located in the Texas area. Its assets grew from $360 million in June 1982 to $1.8 billion by December 1985.

FirstSouth regularly disregarded restrictions on insider loans. Its March 1986 examination revealed:

** The 13 largest borrower-stockholders with 49.9% control received more than $612 million in insider loans representing 36% of total assets and 45% of total commercial loans.

** Loan underwriting reviews showed that these insider loans were made largely to provide 100%-plus financing for speculative land purchases based on inflated appraisals.

** As of February 28, 1986, $465 million of commercial loans were secured by undeveloped real estate.

By December 4, 1986, FirstSouth was closed and its insured deposits and some assets were transferred to the newly-chartered Riverside Savings and Loan. J. Paul Johnson, executive director of the Arkansas League, said that the closing of FirstSouth did not come as a shock to him or his organization's membership because it had been reporting losses and several top officials had resigned. Johnson said: "Everyone anticipated FirstSouth needed assistance of some kind. Its problems and loan losses were common knowledge."

In May 1987, the FSLIC filed a $300 million lawsuit against the former chairman, Mr. Wiechern, and the Board of Directors claiming that the Board deferred completely to the former chairman and allowed him to exercise unbridled discretion in FirstSouth's operation. Allegations against former chairman Wiechern were that he unilaterally approved loans and gave money to favored borrowers before consulting FirstSouth's loan and credit approval committees. The FSLIC said that he "disregarded the financial interest of FirstSouth in favor of those of certain friends, associates and favored borrowers." On several occasions, FirstSouth exceeded regulatory limits on the amounts that could be loaned to one borrower and, at one time, had $126 million in loans to two of its stockholders. In December 1987, the FSLIC merged Riverside Savings and Loan with Home Savings Association of Kansas City, Missouri.

HOW BAD IS THE SITUATION FACING THE FSLIC?

At present, there is a significant difference of opinion concerning the probable costs facing the FSLIC if it is going to clean up the problem of failed thrifts. Exhibit 3 shows a list of some of the more recent estimates of the size of the FSLIC problem. The lowest of the publicly stated estimates seems to be that of Federal Home Loan Bank Board Chairman Wall. In his most recent testimony before the House, he projected the size of the FSLIC's problem at $30 billion with $15 billion needed for Texas alone. Just six weeks earlier, on May 26th before this Committee, he presented projections estimating the cost of resolving the FSLIC problem at $22.7 billion.

At the other extreme are such outside observers as Bert Ely, an industry consultant, and Dan Brumbaugh, a former Federal Home Loan Bank Board economist. Mr. Ely's latest estimate of the FSLIC problem stands at $64 billion (New York Times 7/9/88). Mr. Brumbaugh's current estimate of the cost the FSLIC faces is $75 billion (Los Angeles Times 6/13/88).

Exhibit 3 also shows the number of insolvent thrifts measured on a RAP, GAAP and tangible capital basis as of March 31, 1988. Depending on the definition of insolvency used, the tangible equity (i.e. GAAP equity minus goodwill) of insolvent institutions ranges between -$26.3 billion and -$33.6 billion. It also must be borne in mind that delayed recognition incorporated into any accounting system means that some losses incurred in the past are still unreported.

Given these data, we must agree with those who argue that Chairman Wall's estimate of the problem is too low. Moreover, it is highly likely that there are further losses to be taken by some already insolvent thrifts. There will also be some insolvencies that have not yet been recognized. Finally, to fully resolve these problem cases and create healthy thrifts, the FSLIC will have to provide more assistance than is reflected by the tangible capital position of these insolvent institutions.

EXHIBIT 3: ESTIMATES OF THE SIZE OF THE FSLIC PROBLEM VARY WIDELY...

Chairman Dan Wall:	$30 billion
Bert Ely:	$64 billion
Dan Brumbaugh:	$75 billion

NUMBER OF INSOLVENT THRIFTS BY DIFFERENT MEASURES, MARCH 31, 1988

	RAP Insolvent	GAAP Insolvent	Tangible GAAP Insolvent
Number	367	501	659
Total Liabilities	$158.2 billion	$199.2 billion	$361.3 billion
RAP Capital	-$20.4 billion	-$19.5 billion	-$12.2 billion
GAAP Capital	-$23.0 billion	-$23.7 billion	-$17.7 billion
Tangible GAAP Capital	-$26.3 billion	-$28.0 billion	-$33.6 billion

In our view, placing a precise number on the size of the FSLIC problem is not the central issue. Still, our best estimate given the information shown in Exhibit 3 is that the FSLIC is now facing, on an extremely conservative basis, at the very least a $50 billion problem. We do not even agree among ourselves concerning the full magnitude of what the FSLIC is facing; our individual estimates range from $50 billion up to perhaps $75 billion or even $80 billion.

We all do agree, however, that it is essential that we recognize and face up to the full magnitude of the FSLIC problems. Further, we know that whatever the real size of the problem, it is extremely large. It is larger than the entire net worth of the viable part of the industry. Also, the potential costs of dealing with the problems facing the FSLIC have been increasing at a very rapid rate. Currently, insolvent thrifts are running up operating losses at an annual rate of $6.4 billion. This does not include write-downs or losses due to additional failures. This means that every month that a solution is delayed, the cost increases by over $500 million — and some would say, the real number is more like $750 million to $1 billion. The seriousness of the situation can be judged when these monthly losses are put in the context of the annual regular FSLIC premium the thrift business pays, currently about $800 million.

Exhibit 4 shows how the equity deficit of insolvent thrifts has been growing over the last three years. At the end of the first quarter of 1985, there were 458 GAAP insolvent thrifts. Their liabilities totaled $112.8 billion and their GAAP equity equaled -$3.7 billion.

Conditions deteriorated over the next 12 months but not rapidly. By the end of the first quarter of 1986, the number of GAAP insolvent thrifts had declined to 450 institutions. The total liabilities of these insolvent institutions had increased minimally to $113.8 billion. Their GAAP equity had deteriorated further, however, and stood at -$5.9 billion.

During the next year, the GAAP equity position of these GAAP insolvent institutions dropped sharply, reaching -$12.2 billion at the end of the first quarter of 1987. The number of insolvent thrifts increased only modestly, however, reaching 465 while their total liabilities also increased, to $128.2 billion as of March 31, 1987.

Since then, the situation facing the FSLIC has deteriorated significantly. The number of GAAP insolvent thrifts increased by 36 and now stands at 501. The liabilities of these insolvent institutions have increased 55% and now total $199 billion. Most importantly, the negative GAAP equity position of these GAAP insolvent thrifts is now twice as bad and stands at -$23.7 billion.

As noted earlier, even this GAAP equity measure probably understates the situation. On a tangible GAAP basis there were 659 insolvent thrifts at the end of March 1988. The tangible GAAP equity of these insolvent companies was -$33.6 billion at the end of the first quarter of this year.

EXHIBIT 4: THE LOSSES OF GAAP INSOLVENT THRIFTS HAVE GROWN RAPIDLY...

Date	Number of GAAP Insolvent Thrifts	GAAP Net Worth of GAAP Insolvent Thrifts	Liabilities of GAAP Insolvent Thrifts
3/85	458	-$3.7	$112.8
6/85	466	-3.9	123.3
9/85	468	-4.5	125.6
12/85	461	-5.3	127.5
3/86	450	-5.9	113.8
6/86	455	-7.2	118.3
9/86	446	-7.9	117.3
12/86	459	-10.4	131.1
3/87	465	-12.2	128.2
6/87	491	-14.3	140.2
9/87	501	-16.8	147.4
12/87	506	-19.1	158.8
3/88	501	-23.7	199.2

Note: GAAP capital is defined as regulatory capital less qualifying mutual capital certificates less qualifying subordinated debt less appraised equity capital less net worth certificates less accrued net worth certificates less income capital certificates less deferred losses (gains) on loans and other assets sold. It was decided to exclude ICCs from GAAP capital even though FASB has determined that ICCs exchanged for cash are part of GAAP. The cash qualifier on the ICCs guided the decision to exclude ICCs since it was not possible to ascertain which ICCs were in fact exchanged for cash.

Of course, the situation has deteriorated most rapidly in the state of Texas. Exhibit 5 shows the worsening situation in that state. Three years ago, at the end of the first quarter of 1985, there were 37 GAAP insolvent thrifts in Texas having total liabilities of $4.7 billion. Their GAAP equity equaled -$190 million. The number of GAAP insolvent thrifts in Texas grew steadily in 1985 but totaled only 51 institutions with liabilities of $10.7 billion at the end of the first quarter of 1986. These insolvent institutions had GAAP equity of -$650 million just two years ago. Since then, however, the number of Texas thrift insolvencies, and more importantly, their negative equity positions have increased rapidly.

One year ago, at the end of the first quarter of 1987, there were 94 insolvent thrifts in Texas having $34.8 billion in liabilities and a GAAP net worth of -$4.6 billion. While the number of insolvent Texas thrifts had increased by only 43 between the first quarters of 1986 and 1987, the capital hole of the Texas GAAP insolvent thrifts increased $3.9 billion. As a group, these thrifts had a GAAP equity to liabilities ratio of -13.2% at the end of the first quarter of 1987.

With the passage of another year, the situation deteriorated at an even more rapid pace. By the end of the first quarter of 1988, there were 132 insolvent thrifts in Texas. Their liabilities totaled $61 billion and their GAAP net worth was -$12.85 billion. Thus, their GAAP equity to liabilities ratio was -21% at the end of March 1988.

How did the situation facing the FSLIC deteriorate so incredibly in just three years time? Clearly, there were several factors which combined to create today's huge problem.

Probably the most obvious of these relates to the deterioration of the real estate market in the Southwest following the boom conditions of the early 1980s. These conditions are well documented and will not be expanded upon here.

A second factor that has been much less recognized was the elimination of various real estate related tax benefits in the Tax Reform Act of 1986. For many years, national tax policy allowed investors to shelter income by investing in various real estate projects. This greatly encouraged building, particularly in the sunbelt region.

When many of these tax benefits were removed, the economics of many real estate projects was altered significantly. In areas having a strong local economy, the market adjustments to this new economic reality as far as many real estate projects were concerned were mitigated by a general increase in property values.

The impact was different in areas where the economy was weak or depressed. Weak and declining property values discouraged marginal investors. Removal of the special tax benefits associated with such properties led such marginal investors to abandon various real estate projects to lenders. Many lenders experienced unexpected losses as depressed conditions and the removal of tax incentives made it difficult and costly to deal with foreclosed properties. In other instances, lenders were forced to restructure real estate financing to minimize losses on properties that otherwise could have been handled without loss.

EXHIBIT 5: THE LOSSES OF GAAP INSOLVENT THRIFTS IN TEXAS HAVE GROWN RAPIDLY IN RECENT YEARS...

Date	Number of GAAP Insolvent Texas Thrifts	GAAP Net Worth of GAAP Insolvent Texas Thrifts	Liabilities of GAAP Insolvent Texas Thrifts
3/85	37	-$0.19	$4.72
6/85	37	-0.26	5.29
9/85	42	-0.31	6.73
12/85	45	-0.44	8.35
3/86	51	-0.65	10.65
6/86	59	-1.29	14.51
9/86	66	-2.05	18.43
12/86	81	-3.36	31.43
3/87	94	-4.59	34.84
6/87	104	-6.20	44.83
9/87	116	-7.78	50.22
12/87	125	-9.15	55.85
3/88	132	-12.85	60.65

Note: GAAP capital is defined as regulatory capital less qualifying mutual capital certificates less qualifying subordinated debt less appraised equity capital less net worth certificates less accrued net worth certificates less income capital certificates less deferred losses (gains) on loans and other assets sold. It was decided to exclude ICCs from GAAP capital even though FASB has determined that ICCs exchanged for cash are part of GAAP. The cash qualifier on the ICCs guided the decision to exclude ICCs since it was not possible to ascertain which ICCs were in fact exchanged for cash.

Still, all the problems of today's insolvent thrifts and the rapid deterioration of their equity positions over the past three years cannot be attributed to depressed real estate conditions and the change in real estate tax laws alone. Instead, these conditions simply exacerbated a situation created by numerous regulatory, supervisory and enforcement delays and mistakes which in turn allowed unscrupulous individuals to engage in self-dealing and, in some cases, fraud.

During 1985, it was already becoming clear that the economy in the Southwest was weak and that the real estate market was beginning to show signs of overbuilding. As outlined earlier, it was also clear that many thrifts were out of control, making highly risky loans, growing too rapidly and utilizing questionable accounting techniques. It is clear, as it has been for some time, that the Federal Home Loan Bank Board did not contain the situation.

If the Bank Board had enforced its capital and growth regulations as adopted in January 1985, the total liabilities of GAAP insolvent thrifts would not have nearly doubled over the past three years. If the Bank Board had forced insolvent thrifts to shrink and prevented weak thrifts from expanding rapidly, the negative GAAP equity position of today's insolvent thrifts would not have increased by $20 billion between March 1985 and March 1988.

Over the three-year period of 1985 to 1987, the thrift industry has paid more than $2 billion in regular FSLIC premiums and another $3.5 billion in special FSLIC assessments (plus, one might add, $7.9 billion in income taxes). After paying more than $5.5 billion in FSLIC assessments, healthy thrifts would have expected the problems facing their insurance fund to have declined. Instead, as a result of the Bank Board's failure to contain the problem and because of the impact of economic and tax factors, the FSLIC faces a problem far beyond its capacity to resolve.

THE CAPITAL POSITION OF HEALTHY INSTITUTIONS

One of our major concerns has been the lack of a strategy to ensure the safety and soundness of the capital structure of the viable portion of the thrift industry. All lenders take risks in our society. The concept of capital in regulatory strategy is to have sufficient cushion to have time to detect and act, and ultimately to bear the probable losses from the risks undertaken.

We believe the capital cushion of the viable portion of the thrift industry should not be further eroded. Instead it needs to be built up. The focus in the last few years has, understandably, been on the insolvent companies. But to neglect for long the buildup of capital of the solvent thrift industry is to neglect the safety and soundness responsibility of regulators. We believe the regulator is getting caught in a conflict between his responsibility as head of FSLIC and his responsibility as regulator of the industry.

As of March 1988, the thrift industry reported total assets of $1,261 billion. But institutions with negative tangible net worth accounted for $349 billion of these assets. That would leave $912 billion in assets for the solvent industry.

The entire savings institution business at the end of March 1988 had tangible capital of $4.6 billion (although this is somewhat of an understatement of the amount of tangible capital since we cannot adjust for deferred discounts which are not reported. These discounts offset goodwill to some extent). The $4.6 billion is arrived at by netting the tangible capital of negative $33.6 billion of the insolvent part of the industry against the solvent segment's positive $38.2 billion.

Thus, the solvent segment of the business, as we have defined it, has assets of $912 billion and tangible capital of $38.2 billion, a capital to assets ratio of 4.2%. The Bank Board has mandated that institutions must have capital of 6% by sometime in the early 1990s. The increase in the ratio is tied to the industry's median return on assets so the exact date the 6% level will be required is unknown, but it will probably be around 1995. We wholeheartedly support this minimum as we have been fervent proponents of increased capital requirements for the business.

If a capital requirement of 6% were the rule today, that would mean that capital should now be $44 billion for the solvent portion of the business rather than the current $38.2 billion. And if the solvent institutions grew at 5% per year for the next several years, this would produce an asset base of $1,283 billion by 1995 for that portion of the business. A 6% capital requirement at that stage would mean that these institutions would need capital of $77 billion.

The projected capital buildup needed is $38.8 billion (from $38.2 billion today to $77 billion in 1995), an average of $5.5 billion per year that must be generated from retained earnings and through newly raised capital or debentures.

Four conclusions seem self-evident:

1. The entire capital of the business today would not solve the FSLIC's real economic problem.

2. A reduction in the capital buildup by the viable industry can lay seeds for problems tomorrow -- the capital of the healthy part of the industry needs to be built, not demolished.

3. There is no surplus capital in the industry to reallocate to the Southwest or elsewhere.

4. Until the business' capital is built up to a prudent level, the industry and its regulators must consider restructuring to reduce risk to fit the capital that exists.

WHAT ACTIONS MUST BE TAKEN IMMEDIATELY?

As we noted earlier, we recognize that there is not time in this legislative year for the Congress to find a way to resolve the FSLIC problem. It is obvious that any solution is going to have a significant impact on the federal budget, and therefore, we would expect the final solution to have complexities aimed at mitigating that budget impact. Further, it is essential that the Congress work with the new administration early next year to address the many larger issues relating to the federal deposit insurance system.

The fact that a final resolution of the FSLIC problem will not take place for many months could significantly increase the ultimate cost of dealing with the problem. As we have told the Bank Board repeatedly, and must reiterate now, it is essential that everything possible be done to contain the FSLIC problem and keep new problems from developing.

In this regard, we have a number of suggestions. We hope you will use your influence to encourage the Bank Board to adopt our suggestions as soon as possible. If something isn't done immediately, we see the situation getting even more out of control. The resulting losses could add many billions of dollars to the ultimate cost of resolving the FSLIC situation.

ACTION #1: FACE UP TO THE REAL SIZE OF THE FSLIC PROBLEM AND ACKNOWLEDGE IT TO THE CONGRESS

At present, the Federal Home Loan Bank Board will not recognize the real magnitude of the problems faced by the FSLIC. The Bank Board has better and more immediate access to the data on the business than anyone else. We do not understand how Chairman Wall can ignore the facts shown in Exhibit 3 and simply maintain its current unrealistic position.

Refusal to face up to the real magnitude of the problem creates many difficulties for policymaking. For example, many of the Board's recent decisions imply a strategy that would bleed the thrift industry dry to solve the FSLIC situation. Aside from the fact that the Board's solution may be approaching a constitutional barrier on the expropriation of private property, the problem, in any case, far exceeds the capacity of the healthy thrifts to handle it. Efforts to bleed thrifts completely of their already insufficient capital would be counterproductive and will only make the situation worse since the process itself would produce additional thrift failures and substantial new FSLIC losses.

Further, if the Board would recognize that the FSLIC problem is too big for it to resolve alone, it could establish containment as a top priority. Far too much time, energy and effort at the Bank Board is being spent trying to find new and inventive ways to stretch resources and hide costs. These efforts could be refocused toward utilizing the resources available more effectively and in a way which helps to stop new problems from developing. The Bank Board could also be spending time developing alternatives for next year's effort to reform the deposit insurance system and to solve the FSLIC problem. Given the way the cost of dealing with the problem 's growing, it is essential that the Bank Board help the next administration focus on this issue as an early and top priority.

ACTION #2: RECOGNIZE THAT HEALTHY THRIFTS CANNOT AND SHOULD NOT BEAR ALL THE BURDEN OF SOLVING THE FSLIC PROBLEM

As a result of the Bank Board's refusal to accept the reality of FSLIC's situation, the Board has felt it necessary to publish projections attempting to show that healthy thrifts can shoulder the burden of resolving the problem. In his July 7 testimony before the House Banking Committee, Bank Board Chairman Wall made these projections public. We have a great deal of trouble with the Bank Board's projections not only because they significantly understate the FSLIC problem, but also because they depend upon a set of assumptions that simply cannot be realized simultaneously, particularly if thrifts are going to comply with the Bank Board's own capital and growth regulations.

Let us briefly review some of the key implicit assumptions made by the Bank Board in its most recent projections:

Assumption #1: The Thrift Business Will Grow Rapidly Over The Next Eleven Years

The Bank Board assumes that the total deposits of the thrift industry will increase from $909 billion at the end of fiscal 1987 to $2 trillion at the end of fiscal 1998. This assumes an annual deposit growth rate of 7.2% for all thrift deposits over an 11-year period characterized by relatively stable prices -- if we have high inflation with consequent high interest rates, then we have a whole other problem on our hands. Thus, the Board assumes much faster deposit growth than that of the past three years when, between year-end 1984 and year-end 1987, deposits grew at an annual rate of 5.9%.

In reality, however, the Board assumes much more. Exhibit 6 shows the total deposits at the end of March 1988 for three tangible net worth ranges. If we assume thrifts with no tangible capital do not grow, then this reduces the deposits now eligible for growth to $677 billion. These deposits would have to grow at an annual rate of 8.8% for total deposits to reach $2 trillion in 1998 even when the $281 billion of deposits held by insolvent thrifts are added back in at their current level. In and of itself, this is not a reasonable assumption.

Assumption #2: The Thrift Industry Will Have A Six Percent Capital Ratio By 1998

For the business to have a tangible GAAP capital ratio equal to 6% of assets by 1998 will be very difficult under the best of conditions. At the end of March 1988, the tangible GAAP solvent thrifts had total tangible GAAP capital equal to $38.2 billion. If the business has $2 trillion in deposits in 1998, it will have assets of roughly $2.7 trillion. In order to reach a 6% capital ratio, the business will need $162 billion in capital given that rapid growth. This implies an annual tangible capital growth rate for thrifts of roughly 14.0%. In and of itself, this is not a reasonable assumption.

Assumption #3: No More Thrift Failures Will Occur

The Bank Board's projections assume that there will be no more new failures from now on and that the FSLIC will have resolved all current problems by about 1994. Not many people would believe that scenario even if we could reimpose strict regulation. On the contrary, most would believe that, given just the volatility in the financial markets, there will be ongoing failures of both commercial banks and savings institutions.

On top of that, one of the built-in costs of deregulation is the potential for failure. Many banks and thrifts will try new things given the authority to do so and the potential for profit and some will fail. Further, it is likely that there are failures not yet recognized but already locked in that will come to light in the next several quarters. We also know that, in a number of instances, conditions have been allowed to develop which are likely to result in additional thrift failures. As we stated earlier, the FSLIC problem has not been contained.

It should also be recognized that, in and of itself, the continuation of the special FSLIC assessment is likely to create additional new thrift failures. For example, in 1987:

> The special assessment caused the business in three states -- Alabama, Florida and Mississippi -- to report a combined loss last year instead of a combined profit in the absence of the special assessment;
>
> Of the 876 unprofitable institutions, 67 would have shown a profit in the absence of the special assessment.

Further, the extra cost of the FSLIC special assessment comes at a time when all financial institutions face declining margins and greatly increased competition. As a result, both savings institutions and commercial banks are doing everything they can to reduce their operating costs and build capital. The extraordinary assessments being paid by FSLIC today places them at a severe competitive disadvantage as they seek to minimize their operating costs. In sum, it is not reasonable to assume no new thrift failures in today's deregulated financial environment.

Assumption #4: The FSLIC, With No Reserves, Can Backstop A $2.7 Trillion Business

The Bank Board's numbers assume that the FSLIC will spend just about all of its income over the next 11 years in the resolution of cases and in paying interest on the obligations it is building up. Because of this, the FSLIC will not be adding anything to its reserves and, therefore, having started out essentially insolvent, it will still be insolvent 11 years from now.

This will mean that, even if we were to grant the unlikely assumption that the FSLIC can solve the current massive problem it faces, the problem of the FSLIC would still be with us and its bankrupt status would remain an ongoing story in the media -- it will be like a persistent fever in the American financial system.

The Board's numbers assume that, in the meantime, the industry will grow to $2.7 trillion. It is not reasonable to assume that the FSLIC, with no reserves, can backstop a business of this size.

Assumption #5: Strong Thrifts Will Not Leave The FSLIC Between Now And 1998

We do not believe that the Congress will elect to build a permanent "Berlin Wall" around the thrift business so that healthy institutions can be prevented from leaving the FSLIC between now and 1998. This would amount to the virtual confiscation of the real capital now present in the business. Even if such an attempt were made, however, loopholes would be sure to develop. For that matter some strong institutions might feel forced to self-liquidate and distribute the realized surplus to their shareholders in preference to having it confiscated.

Further, a long-term "Berlin Wall" strategy would be self-defeating. The quickest way to raise capital levels is through conversion to the stock form of organization in the case of a mutual or through issuing additional shares of stock in the case of a stock institution. But as long as the capital of the industry is subject to confiscation or threat of confiscation, then investors will be leery of putting capital in the business. In other words, the "Berlin Wall" will not only keep thrifts in but also keep investors out.

This depresses the price of all savings institution shares. With the shares of healthy institutions depressed, why should investors go through the headaches and risks of recapitalizing risky institutions when they can buy the shares of healthy institutions at depressed prices in the marketplace? This is, indeed, one of the reasons for the underwhelming lack of demand for troubled savings institutions being marketed by the Board in its Southwest plan.

Finally, even if the federal government was determined to confiscate the entire capital of the thrift industry, it would not solve the FSLIC problem but instead make it worse. Exhibit 6 shows that the tangible GAAP capital of the thrifts insolvent on a tangible capital basis equaled -$33.6 billion as of March 31, 1988. The total tangible capital of the solvent thrifts was only +$38.2 at the end of March 1988. As we noted previously, just bringing the capital of today's insolvent thrifts up to zero will not solve the problem. Even this limited goal, however, would leave today's healthy institutions without capital. In turn, this means the entire $1.3 trillion thrift industry would become a FSLIC problem.

It is simply not reasonable to assume that the Congress will attempt to build a "Berlin Wall" around the thrift industry and pursue the self-defeating course of confiscating the capital of today's healthy thrifts.

Assumption #6: It Is Fair To Ask Today's Healthy Thrifts To Shoulder All The Burden Of Resolving The FSLIC Problem

The real magnitude of the costs facing the FSLIC and the contradictory nature of the assumptions underlying the Bank Board's projections (which means they can't be realized) makes it clear that healthy thrifts cannot pay the whole cost of resolving this problem. In fact, if healthy thrifts are going to rebuild their greatly depleted capital base, they cannot continue to pay today's special FSLIC assessments.

EXHIBIT 6: CAPITAL IN THE SAVINGS INSTITUTION BUSINESS

As of March 31, 1988	RAP Insolvent	RAP Solvent	All
Number	367	2,750	3,117
Total Assets	$137,728	$1,123,145	$1,260,873
Total Liabilities	158,175	1,059,601	1,217,776
Total Deposits	123,087	835,381	958,468
RAP Capital	(20,447)	63,544	43,097
GAAP Capital	(23,028)	54,220	31,192
Tangible GAAP Capital	(26,328)	30,899	4,571

As of March 31, 1988	GAAP Insolvent	GAAP Solvent	All
Number	501	2,616	3,117
Total Assets	$179,766	$1,081,107	$1,260,873
Total Liabilities	199,236	1,018,540	1,217,776
Total Deposits	159,879	798,589	958,468
RAP Capital	(19,470)	62,567	43,097
GAAP Capital	(23,705)	54,897	31,192
Tangible GAAP Capital	(28,000)	32,571	4,571

As of March 31, 1988	Tangible GAAP Insolvent	Tangible GAAP Solvent	All
Number	659	2,458	3,117
Total Assets	$349,059	$911,814	$1,260,873
Total Liabilities	361,266	856,510	1,217,776
Total Deposits	281,207	677,261	958,468
RAP Capital	(12,207)	55,304	43,097
GAAP Capital	(17,716)	48,908	31,192
Tangible GAAP Capital	(33,601)	38,172	4,571

Note: Asset totals are reported on the basis of regulatory accounting principles. Hence, in the identity "liabilities plus net worth equals assets," the figure for "net worth" must be regulatory (RAP) capital.

Still, the issue of who pays for the FSLIC problem is more than just a question of the industry's ability to pay. There is no reason why healthy thrifts, many of whom have vigorously complained about the risky activities of their competitors and the regulatory mistakes of the 1980s, should be forced to pay for the losses created by the failure of their competitors.

Up to this point the entire FSLIC burden has been shouldered by the thrift business. This is an entirely unique situation. Healthy thrifts are put in the position of paying for the mistakes of their competitors whereas other business entities in this country are more likely to benefit when one of their competitors goes under. Thrifts are in the unique position, in fact, of paying to prop up some of their most predatory and ill-managed competitors who continue to drive up the cost of funds and to bid down the yield that can be earned on thrift assets.

The special assessment on the business of over $1 billion per year presents it with an untenable situation. Savings institutions are paying far more than commercial bank competitors for insurance. The rate that savings institutions pay for deposits -- 5/24 of 1% of deposits -- is two and one-half times what a commercial bank would pay, 2/24 or 1/12 of 1%.

And large commercial banks get an even bigger break. For instance, if one aggregates the assets of the two largest banks in the country, Citibank and Chase Manhattan, and if one does the same for the 13 largest savings institutions, the combined total assets for each of the two groups comes to roughly the same -- $237 billion for the two largest banks and $242 billion for the group of savings institutions (Exhibit 7). In 1987, it is estimated that Citibank and Chase paid a combined $59 million for deposit insurance coverage. The 13 largest savings institutions, however, paid almost $330 million. In other words, for the same base of assets, this group of savings institutions paid more than five times as much for insurance as did the commercial banks.

The crowning irony here is that while large banks pay one-fifth the amount that savings institutions pay for insurance, these same large banks are being bailed out by the government from the consequences of their troubled foreign loans, loans for which they themselves bear responsibility for making. In a 1986 paper published by the Brookings Institution, Jeffrey Sachs of Harvard University stated that "[o]perationally, it can be argued that the official creditors are indeed 'bailing out the banks'." (Official creditors are international organizations, such as the World Bank, and various governments or their agencies).

As Professor Sachs points out, in 1983 and 1984, the latest years for which he had data, private creditors (mostly commercial banks) received, from major debtor countries, $11.8 billion more than they lent while official creditors provided net resources of $6.1 billion to those countries. In other words, the official creditor community provided a huge amount of resources to the debtor countries to help them repay their loans to the large commercial banks.

In another paper the following year, Professor Sachs and a Harvard colleague, Harry Huizinga, documents the solicitude with which the U.S. Government treats the big banks:

> "The debt management strategy pursued by the United States and the official financial community since 1982 has been geared toward the protection of the large commercial banks, at least on a short-run accounting basis. U.S. policy has been to maintain current interest servicing by the debtor countries to the U.S. banks and to avoid any explicit debt forgiveness or even capitalization of interest payments."

The inequity is glaring. Healthy savings institutions pay a great deal more in insurance premiums to handle problems they did not create and which they warned against. Still, they get criticised for seeking to minimize that burden. Large commercial banks pay a fraction of what thrifts do in insurance premiums and get bailed out by the government of the problems they themselves created. It is not reasonable to assume that Congress will allow this extremely unfair situation to continue for another decade or more.

ACTION #3: IMMEDIATELY STOP CREATING FSLIC DEBT AND GUARANTEES IN EXCESS OF THE AMOUNTS AUTHORIZED BY CONGRESS AND WHOSE COSTS CANNOT BE PAID BY THE FSLIC NOR HEALTHY THRIFTS. (EXPLICIT U.S. TREASURY GUARANTEE OF FSLIC DEBTS WOULD ELIMINATE THIS PROBLEM).

In its July 7 projections, the Board indicated that the FSLIC would have received $2.9 billion in borrowed funds authorized by CEBA by the end of fiscal 1988. On top of that, however, it also indicated its intention to issue FSLIC notes in the amount of $8 billion. Thus, by the end of September 1988, just about a year after CEBA was enacted into law, $10.9 billion in obligations would have been issued by or on behalf of the FSLIC in spite of the fact that CEBA put a $3.75 billion annual cap on that authority. Thus, the Board is clearly circumventing the borrowing limits set by law in CEBA.

And it doesn't stop this year. By the end of September 1989, the Board's numbers show debt outstanding of $15.8 billion (obviously totally beyond the $10.8 overall CEBA limit) and by the end of fiscal 1993, $23.4 billion in obligations outstanding. Unofficially, we have been told that even these recent projections may understate the Board's plans to issue FSLIC notes.

Of course, someone has to pay the interest bill on FSLIC notes and FICO bonds. The Bank Board's own projections show the interest cost on these notes and bonds at $1.20 billion in fiscal 1989 and $1.42 billion in fiscal 1990. Further, we know that the FSLIC has entered into some substantial yield maintenance agreements in recent months. For example, when Southwest Savings received assistance earlier this year, a yield maintenance agreement on all problem assets, totaling $2.6 billion, was included. This agreement provided an initial spread of 2.75% over the Texas cost of funds. Assuming the yield to be maintained in fiscal 1989 equals 10% and that most of the assets are non-earning, the total FSLIC annual assistance on this one yield maintenance agreement could come to $260 million (a figure that seems reasonable in view of the $2 billion price tag estimated by the FSLIC as the present-value cost of the transaction). An annual cost of $260 million comes to about one-third of the total regular premium and this is for just one transaction. Even if only one half this sum is required in this one case, the cost would represent a significant portion of the FSLIC's regular premium income.

During fiscal 1989, the FSLIC's income from its regular premiums will be roughly $865 million. This is $335 million less than the Bank Board's projected interest cost on FSLIC notes and FICO bonds for that same time period. It does not include yield maintenance assistance nor case resolution costs.

The FSLIC special assessments will provide it with roughly $1.3 billion in additional income in fiscal 1989 if there is no phasedown. Thus, the FSLIC's total regular and special premium income for the next fiscal year will come to about $2.16 billion. In other words, at the end of September 1988, the FSLIC's projected debt service ($1.2 billion) will exceed one half of its total income. What remains will be further reduced by yield maintenance and other long-term assistance agreements. This leaves very little for case resolution expenses. It also assumes a continuation of the special FSLIC assessments which cannot be maintained for the long term.

In essence, what the Bank Board's projections show is a highly disguised form of a "Ponzi Scheme". The FSLIC will soon begin using its FICO bond borrowing simply to help it pay the interest on its previously issued FSLIC notes and FICO bonds. Worse yet, the FSLIC is engaging in this charade just so the Board can avoid facing up to the real magnitude of problems facing the FSLIC.

Healthy thrifts see no way they can support this growing FSLIC debt burden. They see the further issuance of notes as a commitment of FSLIC and thrift industry resources that simply do not exist. If the Treasury is willing to guarantee the interest and principal of FSLIC notes, then a continuation of their issuance may make sense. Barring such an explicit U.S. Treasury guarantee, FSLIC should immediately stop adding to its long-term debt whether it is in the form of FSLIC notes, FICO bonds and/or yield maintenance agreements.

ACTION #4 IMMEDIATELY STOP IMPERILING THE FINANCIAL VIABILITY AND CREDIBILITY OF THE 12 FHLBANKS THROUGH BACKDOOR GUARANTEES OR PURCHASES OF EXTRA FSLIC PAPER AND THROUGH LOANS TO THOSE WHO MAY NEVER BE ABLE TO REPAY. (EXPLICIT U.S. TREASURY GUARANTEES OF FSLIC OBLIGATIONS WOULD ELIMINATE THIS PROBLEM).

Under the Competitive Equality Banking Act of 1987, the Federal Home Loan Bank System is required to distribute up to $3 billion of its retained earnings to the Financing Corporation. These funds are to be used to purchase zero-coupon bonds to back the principal of the FICO bonds.

Through May 1988, the System has already provided $257 million to the FICO for this purpose. Its retained earnings have been reduced by a like amount. The commitment to FICO still to be made essentially depletes the remaining $2.5 billion in retained earnings plus another $300 million in future System earnings.

Since the business owns the System, it must be recognized that savings institutions are paying for both the principal and interest on the $10.8 billion of FICO bonds. The reduction in the System's capital is a loss of industry capital and could eventually also increase the cost of consolidated obligations and, by extension, the cost of advances to members. Furthermore, the earmarking of future income to the FICO implies a reduction in future dividends from the System.

While these constitute known costs to the business, even greater concerns have been expressed about another threat both to the System and the business' investment in it. In some parts of the country, the Southwest in particular, failed institutions continue to operate and are paying very high rates for deposits. These high rates not only exacerbate the losses at these failed institutions, but they also crimp the net interest margin of healthy competitors.

Advances from the System are viewed as possible substitutes for these high cost deposits. The assets of the weak institutions are so impaired, however, that they lack sufficient collateral to obtain advances. One suggested solution is for the FSLIC to provide notes to these institutions which in turn can be used as collateral. Alternatively, advances could be made solely with the FSLIC's guarantee.

Furthermore, when an insolvent institution is merged into a healthy one (or, as has been happening in the Southwest, when several insolvent institutions are merged together), the FSLIC routinely provides notes in lieu of cash to help fill up the net worth deficiency. It also provides guarantees of a stated rate of return on certain troubled assets.

In order to liquify these FSLIC notes and the covered assets, the Dallas Federal Home Loan Bank has been making advances collateralized only by the notes or the covered assets. In effect, with the FSLIC short of cash, it has been using the cash of the Dallas Bank to bolster its resources.

In a letter earlier this year to the members of the Dallas Federal Home Loan Bank, the Bank's president wrote that "the board of directors of the Dallas Bank recently authorized the Dallas Bank to fund advances secured by the guarantee of the FSLIC in amounts up to the paid-in capital of the Bank [$1.4 billion as of May 1988] and to accept as collateral FSLIC notes issued in conjunction with Ninth District case resolution efforts."

It is our understanding that the Federal Home Loan Bank of Dallas has now reached the limit set out by the Bank president's letter and that the presidents and boards of directors of other Federal Home Loan Banks are being pressured to step in so that this sort of advance program can be continued.

No one questions the need to reduce the cost of savings at insolvent institutions. The so-called Texas premium is increasing the costs of all financial institutions. The Bank Board has exhibited a willingness to grapple with this very difficult issue and has shown a good deal of creativity along the way. What we are saying, however, is that our investment in the System should not be put at risk by being used to monetize the FSLIC notes to provide liquidity to insolvent institutions. We wonder whether what is being asked of the System should not more properly be asked of the lender of last resort, the Federal Reserve.

Of all people, we, who work in FSLIC-insured institutions, do not question the FSLIC's guarantee to depositors. Congress has pledged on numerous occasions that it will be honored.

However, we are concerned that the advance program that has been used by the Dallas Bank and is being urged on other banks is but a roundabout way to confiscate even more of our capital to bolster the FSLIC. As mentioned previously, the total retained earnings, and then some, of the Banks has been pledged by CEBA to the FICO. All that is left of the capital of the Bank System is paid-in capital. As the name implies, it is money that our institutions and those of our peers have paid in to the Bank System in exchange for stock, dollar-for-dollar, which we carry as an asset on our books. Any encroachment whatsoever on its value is exactly the same as if the money was taken directly out of our institutions.

Frankly, we are afraid that in a merger of the FSLIC with the FDIC or any other reorganization of the FSLIC, the notes held as collateral by the Banks might be abrogated as a way of taking even more of our capital from us. As we have outlined extensively elsewhere in this paper, we are already paying more than we can afford to rescue the FSLIC and the capital positions are already inadequate at many of our institutions.

At the end of May, our investment in the Federal Home Loan Bank System, the money our institutions paid into it, came to $11.9 billion. That is 38% of the total GAAP capital in the industry and it is intolerable and irresponsible that it is being put at risk.

Any abrogation by the FSLIC of its notes might seem to be of remote likelihood. But we remember last year when the FSLIC secondary reserve was confiscated. Further, to avoid an adverse opinion on the audit statement of the Dallas Bank last year, the FSLIC had to redeem with cash $1 billion in notes that were accepted by the Dallas Bank as collateral. By accepting items of debatable quality as collateral, the System might be exposing itself to risks that it has avoided for the past 50 years. As more of its capital is used as a buffer against assets of doubtful value, the costs of consolidated obligations may increase.

But even more worrisome is the fact that this practice could threaten the value of the System stock held by savings institutions. Since the System's retained earnings are already earmarked for FICO, any further impairment of its capital will represent a direct hit to its paid-in capital. As a result, the accounting community would very likely also require member institutions to recognize a proportional writedown of their investment in the System. This would represent a potentially devastating drain on the precious capital of healthy institutions and at the same time create a large number of additional new thrift insolvencies with the associated huge losses for the FSLIC.

An explicit U.S. Treasury guarantee on the principal and interest of FSLIC notes would remove our concerns. It would allow the Bank System to responsibly lend on such assets as collateral. Barring such an explicit U.S. Treasury guarantee, the Bank System should not accept FSLIC notes or guarantees as collateral for advances.

ACTION #5: REMOVE MANAGERS, BOARDS OF DIRECTORS, STOCKHOLDERS AND SUBORDINATED DEBT HOLDERS OF INSOLVENT THRIFTS IN PREPARATION FOR A MAJOR LIQUIDATION EFFORT IN EARLY 1989

For many years, the healthy segment of the thrift business has urged that the FSLIC deal with insolvent institutions immediately. If resources are not available to liquidate or otherwise resolve the situation, then regulators have been urged to take control of the institution. The Management Consignment Program which allows the FSLIC to in effect create a new thrift, remove management, boards of directors, stockholders and subordinated debt holders is one vehicle that can serve this purpose. This mechanism doesn't require the removal of management or a board of directors if the FSLIC determines they should remain, but it forces such an evaluation and decision.

In some areas, there has been a shortage of replacement management and boards. This has led to the merger of some institutions into MCPs. It has also led to the suggestion that MCP holding companies be formed if necessary. Exhibit 8 shows the number of GAAP insolvent thrifts by state and the number of MCPs created. We believe that the Bank Board has not been aggressive enough in taking these actions and, particularly in canceling the rights of stockholders and subordinated debt holders in some cases. Thus, it insures that the business is rid of high risk and incompetent managers.

It is clear to us that a major liquidation effort will have to begin in early 1989. In preparation for that action, the Bank Board should act to prepare today's insolvent thrifts for immediate resolution next year. Further, it appears that of the 501 GAAP insolvent thrifts as of March 31, 1988, a large number could be resolved for a relatively small resource expenditure. For example, the GAAP equity of the 325 least insolvent thrifts -- 65% of all insolvents by number -- was only -$2.0 billion. The FSLIC could probably have resolved these 325 for less than it spent on case resolutions in fiscal 1988.

Dealing with these problems now will prevent them from becoming bigger problems later on. The FSLIC may have to wait until next year to obtain sufficient resources to deal with today's grossly insolvent thrifts, but there are over 300 institutions that can be handled with the resources available now.

ACTION #6: ENFORCE THE BOARD'S NET WORTH AND GROWTH RULES BY FORCING INSOLVENT INSTITUTIONS TO SHRINK, LOW-NET-WORTH INSTITUTIONS TO SIGNIFICANTLY LIMIT THEIR GROWTH AND BY LIMITING THE NUMBER OF HEALTHY INSTITUTIONS GROWING VERY RAPIDLY

History shows that excessive growth has been a major factor in creating the problem facing the FSLIC today. In turn, much of this too rapid growth results from the failure of thrift regulators to vigorously enforce today's clearly established capital requirements. This is particularly troubling in those instances where low net worth and insolvent institutions have been allowed to grow, and some rapidly.

EXHIBIT 8: THE BANK BOARD HAS NOT BEEN AGGRESSIVE IN TAKING CONTROL OF TODAY'S INSOLVENT THRIFTS . . .

State	Institutions Placed In MCP	MCP In Operation	GAAP Insolvent	MCP As A Percent of GAAP Insolvent Institutions
Alabama	1	1	5	20.0%
Alaska	0	0	2	0.0%
Arizona	1	1	1	100.0%
Arkansas	2	0	14	0.0%
California	27	15	32	46.9%
Colorado	2	0	7	0.0%
Connecticut	0	0	1	0.0%
Florida	6	5	20	25.0%
Georgia	0	0	10	0.0%
Idaho	0	0	1	0.0%
Illinois	6	5	53	9.4%
Indiana	0	0	13	0.0%
Iowa	1	0	8	0.0%
Kansas	2	1	13	7.7%
Kentucky	0	0	2	0.0%
Louisiana	12	5	28	17.9%
Maryland	0	0	6	0.0%
Michigan	1	1	6	16.7%
Minnesota	0	0	8	0.0%
Mississippi	0	0	9	0.0%
Missouri	1	0	10	0.0%
Montana	0	0	1	0.0%
Nebraska	1	1	9	11.1%
New Jersey	0	0	11	0.0%
New Mexico	0	0	6	0.0%
New York	1	0	5	0.0%
North Carolina	0	0	5	0.0%
North Dakota	0	0	2	0.0%
Ohio	1	0	19	0.0%
Oklahoma	5	3	19	15.8%
Oregon	2	1	5	20.0%
Pennsylvania	0	0	5	0.0%
South Carolina	0	0	3	0.0%
South Dakota	0	0	2	0.0%
Tennessee	0	0	8	0.0%
Texas	11	10	132	7.6%
Utah	1	0	3	0.0%
Virginia	1	1	7	14.3%
Washington	1	0	6	0.0%
Wisconsin	0	0	2	0.0%
Wyoming	0	0	2	0.0%
Total	86	50	501	10.0%

Note: There are no GAAP insolvent institutions in Delaware, District of Columbia, Hawaii, Maine, Massachusetts, Nevada, New Hampshire, Rhode Island, Vermont, and West Virginia.

Efforts to focus regulatory attention on the growth and capital issue have been numerous. As noted earlier, the House Committee on Government Operations recommended in 1984 that, "There should be immediate onsite evaluation of institutions exhibiting excessive growth or significant adverse changes from past performances."

In early 1986, members of the Task Force on FSLIC Issues referred to previously met with Chairman Gray to insist on growth limitations related to capital. In March 1986, this Task Force stated in a report that, "the Task Force believes that MCP and phoenix institutions should be operated in a shrinkage mode."

Healthy thrifts have since continued to stress the necessity of controlling the growth of weak and insolvent institutions. These institutions, if not controlled, have too many incentives to take big risks: if they win their stockholders benefit and if they lose the FSLIC bears the cost.

During its June 21-22, 1988 meeting, the Federal Savings and Loan Advisory Council once again stated its view that growth must be controlled. The members recommended that the Bank Board freeze the growth of RAP insolvent institutions as of June 30, 1988. They also suggested that all MCPs should be required to shrink at least 10% a year until they are otherwise resolved.

In our view, all GAAP insolvent thrifts should be forced to shrink. Growth should not be allowed as part of a strategy to preserve questionable assets or in the hope of raising the value of an insolvent institution's subsidiaries. If the cash flow problems of an institution are so bad that growth is required just to pay operating expenses and interest on deposits, then the firm should be immediately merged or liquidated.

Thrifts having positive GAAP equity of less than 3% of liabilities should also face stiff growth limitations. No such weakly capitalized firm should be permitted to grow until it meets its capital requirement. Poorly capitalized firms are clearly the FSLIC's most obvious source of potential losses and should be recognized as high risk operations.

Further, the Bank Board should act to limit excessive growth at any thrift institution. It should be a very rare instance when a thrift grows at an annual rate of 25% or more over a six-month time period. This was recognized by the Bank Board in its own net worth regulations in January 1985 and should be aggressively enforced.

In a letter to a colleague of ours who had complained to the Treasury about the inequity of the government's confiscatory approach to solving the FSLIC's problems, Undersecretary George Gould asked: "Where were you when Ed Gray tried to restrict the growth of those institutions with no capital? I know where your trade group was because I had to deal with them."

As we have documented here, the industry was, in fact, demanding of Mr. Gray, as well as his successor, Chairman Wall, that the Board fulfill its obligation to ensure that insured institutions are operating in a safe and sound manner by reining in those who were growing too rapidly. We can document that we have been pressing the Board on this matter for almost three years. And we might add, in reply to Mr. Gould, that it is an extraordinary role reversal when the regulated industry has to beg its regulator to get tougher.

ACTION #7: LIMIT THE ACTIVITIES OF WEAKLY CAPITALIZED THRIFTS TO RESIDENTIAL MORTGAGE FINANCE AND CAREFULLY MONITOR PRODUCT DESIGN AND PRICING.

One of the major problems with weakly capitalized institutions is that, with none of the institution's and/or owner's capital at stake, management has every incentive to throw the "long bomb" in an effort to recover its health. If the strategy succeeds, the institution, its management and ownership benefit. If it fails, the insurance agency -- and, by extension, the rest of the business -- is left to pick up the pieces.

In any other business enterprise, the marketplace would put a check on such a strategy. Nobody would lend the necessary funds to a bankrupt or near-bankrupt entity.

With an insured financial institution, however, there is no such check. Lenders (in this case, depositors) look for safety not to the health of the enterprise in which they are investing their funds but rather to the backstop of the federal deposit guarantee. And since the institution is involved in a desperation play, many of the prudential standards that would otherwise guide a management team are often thrown to the wind in the critical two-minute drill.

These are not theoretical, academic concerns. It is an endemic problem. Weak institutions, both banks and savings institutions, are paying top rates to attract funds and are bidding down asset rates (e.g. making ARMs where the initial rate is unrealistically low) to attract borrowers. In the process, they are weakening the whole financial institution system. Mindful of this problem, the Federal Savings and Loan Advisory Council at its meeting on June 21 and 22 of this year recommended that "the loan origination and pricing policies of all supervisory cases should be closely monitored, particularly as it pertains to the issuance of deep discount ARMs."

Since the marketplace does not provide a check on the riskiness of the activities of weak institutions or on their product pricing, it is absolutely incumbent on the regulator to stop the insolvent or weak institutions from throwing the long bomb in this fashion. Insolvent or weakly capitalized savings institutions should be prohibited from engaging in any exotic activities and should, instead, be required to restrict their activities to home finance. The regulator should also carefully monitor their pricing of both deposits and loan rates.

ACTION #8: PROHIBIT WEAKLY CAPITALIZED THRIFTS FROM BIDDING ON AND/OR ACQUIRING WEAK OR INSOLVENT THRIFTS.

Another incarnation of the desperation play on the part of a weak or insolvent institution is to try to portray itself as a "mothership" candidate, take over one or more failed institutions and through FSLIC assistance and forbearances hope to be given the chance to work its way back to health. On the face of it, this may even be an attractive solution, at least in the short run, from the FSLIC's point of view. The weak mothership institution is so desperate that it will take over a failed institution with less cash or other assistance from the FSLIC than a strong acquirer would require. Just the regulatory exceptions alone that are granted in forbearance agreements, executed in connection with such mergers, are of value to the weak acquiring institution.

Again this situation is far from being a hypothetical concern. Almost all of the so-called case resolutions in the Southwest plan to date have been of this variety.

The problem, of course, is that these are not resolutions of problem cases. They are just putting off the day of reckoning. If these were only time-buying devices, that would be bad enough. What is happening now, however, is much worse since there is often a kind of reverse synergy at work in these cases. When you put two problem institutions together, the new problem is often worse than the sum of the two separate ones.

Still, making such acquisitions even more objectionable is the fact that the whole strategy of the weak acquiring institution is that, as part of the deal, it will be granted forbearances. These will allow it to grow rapidly or take other high-risk strategies in a last-ditch attempt to work its way back to health. Usually the odds of it succeeding are slim to none. The bottom line is that, as long as it continues in existence, it will be a disruptive force in the marketplace and when it fails, as it almost ineluctably will, the resulting tab for the FSLIC will be ever so much greater.

ACTION #9: WHEN CAPITAL FORBEARANCES ARE ISSUED, THEY SHOULD PROHIBIT GROWTH AND REQUIRE THAT THE THRIFT LIMIT ITS ACTIVITIES TO RESIDENTIAL MORTGAGE FINANCE.

Some institutions have been granted capital forbearance by the FSLIC on the theory that they are well-managed and can work their way out of their problems. However, the recovery plans filed by some of the recipients of forbearance call for rapid growth as at least one of the steps to work their way back to health.

For instance, Benjamin Franklin Savings Association in Houston has been granted forbearance from minimum capital requirements until September 1994 -- as of March 31, 1988, it had GAAP capital of 0.3% of liabilities. One of its officers told the press that the institution offered regulators a three-tier plan "that includes doubling in size through the purchase of mortgage-backed securities."

Similarly, Columbia Savings of Colorado (GAAP net worth as of March 31 of -$60 million or -2% of liabilities) was granted forbearance on April 13, 1988. In its 1987 10-K filing, the company states that "Columbia's capital restoration plan involves increasing earnings through growth of the association ..."

There is even a memorandum from a Washington law firm to its clients making the rounds noting that Columbia was granted capital forbearance and that its capital restoration plan approved by the FHLBB "was based on, among other things, increased earnings through controlled growth of the institution." The law firm must have an elastic definition of the word controlled. At the end of 1987, Columbia had total assets of $2.8 billion. Its recovery plan called for an off-balance sheet structured asset/liability transaction of $1.5 billion.

In any case, the memo continues with the extraordinary statement (underlined in the original): "The fact that growth was determined to be a permissible part of First Columbia's plan may give institutions some insight into the balance sheet restructuring techniques that the current Bank Board is prepared to condone." Presumably this particular law firm is circulating this information to its client base in the hope that it will be engaged to prepare similar plans for others.

The lack of an appreciation for the fact that rapid growth is most likely a cancer rather than a cure-all is evidenced by a phrase from a study of the savings institution crisis in Texas conducted by the Texas Savings and Loan League:

> "While there was not anything necessarily wrong with this "grow out of it" strategy (which is being utilized even today by the FHLBB, the FSLIC, and various FHLBs in devising strategies to resolve the problems of financially troubled thrifts) ... "

We think that it is outrageous, after all we have been through, that at least some of the thrift regulators still believe in the nostrum of rapid growth as an effective means of restoring an institution to health. We think there is no greater lesson that needs to be learned both by the regulator and the regulated that rapid growth can never be regarded as a way to work out of a serious problem situation. Instead, rapid growth should be regarded as prima facie evidence that an institution is operating in an unsound fashion and, since it is so easily monitored, should be one of the most closely followed danger indicators by the regulators.

ACTION #10: DELEGATE AUTHORITY, WITH APPROPRIATE BANK BOARD GUIDELINES, TO THE DISTRICT FEDERAL HOME LOAN BANKS TO RESOLVE FSLIC CASES WITH UP TO $500 MILLION IN LIABILITIES OR WITH A RESOLUTION COST OF UP TO $50 MILLION.

As we mentioned earlier in this testimony, a great number of the 501 institutions that are reported to be insolvent on a GAAP basis are only marginally so. Thus, the negative GAAP capital of the 325 least insolvent of the 501 came to only $2 billion. Thus, the rolls of the insolvent could be greatly reduced through the expenditure of a relatively small amount of money.

This would have an immediate palliative effect on the public, showing that the number of insolvent thrifts was being greatly reduced. More importantly, resolution of those marginally insolvent cases would keep them from becoming more expensive cases later on.

Something along these lines may be what the Board has in mind with its recently announced so-called "McDeal" program in which it has 21 thrifts for sale, targeted for fast track resolution. They can be acquired with standardized financial assistance packages from the FSLIC. We do not know how successful this approach is going to be -- the closing date for bids is August 5. We congratulate the Board for trying this approach, however, but suggest that expedited handling of cases is needed in a lot more than 21 instances.

We suspect that the reason that there is not more being done in this area may be more a question of personnel resources rather than an absence of cash resources; that the people at the FSLIC are overwhelmed with trying to resolve the large and costly cases. At this point, this is a misdirection of resources. The FSLIC would be better off putting the large cases on ice, while keeping them under strict supervision and on a very short leash and using its scarce means to clean up the many less expensive cases that need resolution.

An even better way to handle these latter cases is to delegate authority to the district Banks to be able to resolve cases up to a certain size -- $500 million in liabilities -- or up to a certain resolution cost -- $50 million. District Banks are closer to these problems and can concentrate their personnel resources to clean up this situation without the time delays involved in a Washington D.C. resolution.

ACTION #11: REQUIRE ALL CAPITAL CONTRIBUTIONS TO BE IN CASH OR CONVERTED TO CASH.

In a number of instances, problems have developed for the FSLIC after a thrift has received a "non-cash" or "in-kind" capital contribution. The Federal Home Loan Bank Board recognized this as a potential problem more than five years ago. In April 1983, the Bank Board proposed new rules regarding the acquisition of non-cash assets. By way of background, the proposed rule states,

> "A significant number of transactions have been proposed or consummated in recent months by insured institutions where certain non-cash assets, primarily land, are acquired either in exchange for securities of an insured institution or contributed to an insured institution. The transactions typically involve an insured institution with severe operating problems and reserves that have declined to levels below that required by the Board's regulations. Although the non-cash acquisitions usually involve significant proposed increases in reserves, the Board believes that certain of these acquisitions are not in the best long-term interests of the acquiring institution or the FSLIC."

The ability to contribute land and other "in-kind" assets as capital together with some appraisal problems has attracted developers and other non-traditional acquirers as thrift investors. In 1983, the Bank Board seemed to recognize that this could lead to non-traditional new owners entering the thrift business with the intention of pursuing a high risk investment strategy. Casual evidence would seem to support the Bank Board's fears.

Unfortunately, neither this proposed new rule nor any variation has ever been adopted by the Bank Board. We question the failure of the Bank Board to adopt its proposed rule of April 1983. In our view, new acquirers should be required to make their capital contributions in cash so that the interests of the FSLIC and the thrift business are protected.

ACTION #12: TIGHTEN THE REGULATIONS SO THAT LOANS TO ANY ONE BORROWER CANNOT EXCEED THE GREATER OF 25% OF GAAP CAPITAL OR $500,000.

One of the tenets of sound banking practice is diversification -- the future of a financial institution should not rest on one loan or even a small number of them. This is based on the eminently sensible idea of not carrying all one's eggs in one basket. That way, if one loan should go bad, it will not bring down the institution.

A way to try to ensure this is to prohibit institutions from loaning more than a certain percentage of their capital on one project or to one borrower. Not only would this help avoid the collapse of the institution if a single loan goes into default, it would also help to prevent self-dealing, insider-dealing or fraud. One way that a financial institution can be looted by insiders is for it to make loans to directors or officers who have no intention of paying the institution back. Regulations that limit the amount that can be loaned to a single individual make it harder to significantly damage the institution through insider dealings.

Currently, a savings institution can invest an amount equal to all of its net worth in one loan. Thus, even a single disastrous loan by a savings institution could be enough to deplete its entire net worth. In contrast, the Congress has, since 1906, imposed a strict limitation upon loans to one borrower by national banks which are prohibited from lending an amount equal to more than 25% of their net worth.

As part of its demand that regulations be tightened to protect the FSLIC, the Task Force on FSLIC Issues, which we referred to earlier and on which we served, recommended in March 1986:

> "altering the loan-to-one borrower regulation to prevent institutions from investing 100% of their capital in a single loan. Specifically, the Task Force recommends that the regulation be changed so that an institution could lend no more than 25% of its net worth to one borrower."

On August 15, 1986, the Board proposed a new regulation limiting loans to one borrower to the greater of 25% of net worth or $500,000 (the $500,000 floor was inserted so that the ability of small institutions to make reasonably-sized loans would not be crippled). Inexplicably the Board has never acted to put this regulation in effect. We strongly urge that the Board resurrect and pass this proposal.

ACTION #13: LIMIT THRIFT INVESTMENTS IN MORTGAGE DERIVATIVES, PARTICULARLY, THOSE MADE BY WEAKLY CAPITALIZED FIRMS

During recent years, thrifts have become increasingly active as mortgage-backed securities investors. They are also major investors in a variety of mortgage derivative securities such as mortgage strips, residuals and zero coupons. The potential significance of these investments is becoming increasingly apparent. At the end of 1987, nearly 300 savings institutions had more than 25% of their assets invested in mortgage-backed securities. Some 30 institutions had MBSs amounting to more than 50% of total assets. Add other investment securities to these holdings and there is obvious reason to question whether such entities are really involved in investment portfolio management or, instead, are in the business of managing a trading portfolio.

Further, it is clear that the business as a whole has recorded significant profits from the sale of investment assets during recent years. Falling interest rates have made this a natural opportunity for our institutions to capitalize on the increased value of their asset holdings. But another way to look at the situation is that some institutions are taking gains on various investment assets while retaining assets which have lost value in portfolio.

Whatever the situation with thrift portfolio management, it is well known in the business that Wall Street has found some thrifts to be aggressive investors in today's more exotic, if speculative, mortgage derivative products. The Federal Financial Institutions Examination Council recently addressed both the issue of trading accounts and the question of mortgage derivative investments in a statement of supervisory policy. In its statement, the Examinations Council notes,

> "The depository institution regulators have become aware of speculative activity which has taken place in a number of depository institutions' investment portfolios. Certain of these institutions have failed because of the speculative activities and other institutions have been weakened significantly as their earnings and capital have been impaired and the liquidity of their securities has been eroded by the depreciation in their market value."

The Council goes on to state when discussing mortgage derivatives,

> "It may be unsuitable for a depository institution to commit significant amounts of funds to long-term stripped mortgage-backed securities, residuals and zero coupon bonds which fluctuate greatly in price."

As we understand it, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the National Credit Union Administration all agreed to this policy statement warning about the dangers of mortgage derivative investments. The Bank Board did not follow suit. Instead, it has proposed some new rules concerning the definition of a trading account and some guidance on the selection of securities dealers.

We agree with the Examinations Council that these mortgage derivative investments are very risky. They may not be prudent investments for most thrifts, particularly in large amounts. Some limits on these exotics would probably be in order just to limit the FSLIC's exposure.

More importantly, these high risk but potentially high yielding investments could be very tempting to weak thrifts attempting a "Hail Mary" pass. We believe thrifts not meeting their capital requirements should not be permitted to invest in these mortgage derivative products.

ACTION #14: LIMIT THE USE OF JUNK BONDS, ESPECIALLY BY WEAKLY CAPITALIZED THRIFTS.

Over the last few years, a handful of thrift institutions have become relatively heavily involved in so-called junk bonds--bonds with low credit-quality ratings but high expected yields. There is a threshold question of whether insured deposits should be used to fund junk bonds although the same question could probably be asked about any commercial loan, loans to foreign countries, etc.

For the moment, however, we are most interested in investment in junk bonds from the safety and soundness point of view. Junk bonds have yet to be truly tested in a recessionary environment and we do not think that any institution should be allowed to invest in them if it does not have adequate capital to take sizable losses. Even those that have a lot of capital who adopt a strategy of investing in junk bonds should be monitored very carefully. It might also be appropriate to place limits -- maybe a maximum percentage of assets or, better yet, a limit tied to capital -- on the amount of junk bonds an institution can hold.

ACTION #15: REQUIRE IMPROVED REPORTING AND MONITORING OF INTEREST RATE RISK WITHIN THE THRIFT INDUSTRY.

One of the tendencies of regulators is to fight the last war. For instance, during the crisis in the thrift industry brought on by the extremely high interest rates of the 1981-82 period, thrift regulators were understandably focused on interest rate risk. In retrospect, there clearly was not enough focus on credit risk. However, it was during this period that the seeds for the current FSLIC problems were sown. The current crop of problems are largely credit related and now the regulator is engrossed in dealing with those problems.

Our fear is that some of the business is still susceptible to major problems if interest rates should rise again and that insufficient attention is being paid to this problem. We do not want to understate the strides that most institutions have made getting their balance sheets in better shape as far as matching maturities is concerned. Federal associations were not given the authority to make viable adjustable mortgages until 1981. Even then, the business had to wait until funds became available in 1983 and then it had a major task on its hands to educate the public on the benefits of the ARM.

The press did not help. Financial reporters insisted on portraying the negatives of the ARM without giving any attention to the positives. The Federal Reserve tried to make lenders provide disclosures to borrowers which, again, detailed only the negative aspects of the instrument. Fannie Mae and Freddie Mac, with their emphasis on fixed rate mortgages, made it even more difficult to originate adjustables. Finally, Realtor and builder groups railed against the ARM in spite of the fact that it kept their businesses alive during the tough times of 1983 and 1984.

In spite of all this opposition, the thrift business did a remarkable job of educating the public on the benefits of the ARM. It was helped in this education effort by the wave of refinancings over the last few years. People who had taken fixed rate mortgages during high interest rate periods had to go through the time-consuming and expensive (payment of application fees, appraisal costs, points, etc.) process of refinancing their mortgage in order to get the benefit of lower rates while those who had taken an ARM to begin with benefited automatically from lower rates.

But in spite of this outstanding performance by the business generally, some institutions have not done nearly enough. It is still not that easy to originate profitable and viable ARMs. Some institutions seem to have simply given up trying. For instance, it has been estimated that, as of September 30 of last year, two fifths of our institutions had negative one-year so-called gap positions of 50% or worse. An example of a negative 50% maturity gap would be an institution with $100 million in assets where $75 million in liabilities mature within a year but only $25 million in assets mature within the same period. This means that if interest rates rise, the amount of liabilities increasing in cost will far exceed the amount of assets increasing in yield. This would mean a sharp decrease in profits or actual losses if interest rates should rise sharply.

Because of the negative gap of the institutions that have not gotten themselves into a better maturity-match situation, it has been estimated that a 2% increase in interest rates would cause the interest margin of the thrift business to drop by 68 basis points, more than wiping out the profits of the healthy institutions. We have heard that the Federal Home Loan Bank presidents are planning to refocus attention on this problem. If so, we would strongly support them and the Bank Board in that effort; if not, we would urge them and the Bank Board to do so.

REFORMING THE DEPOSIT INSURANCE SYSTEM

The focus of our testimony today has been on the problems facing the FSLIC, their magnitude, and the need for a number of Bank Board actions in the immediate future. We have not addressed the larger issues of how we resolve the FSLIC situation early next year nor what the changes are that need to be made in the federal deposit insurance system. We are not prepared to deal with these issues now nor is the Congress in our view.

We do want to state for the record, however, that we do not feel that today's FSLIC problem results from an inherent flaw in the thrift system. What has happened in the 1980s is that the balance between the regulatory system and the federal deposit insurance system has been thrown out of kilter. Because of their original asset-liability mismatch in the early 1980s and the resulting capital losses, thrifts and the FSLIC have exhibited the worst effects of this imbalance.

We believe the thrift system still plays a vital role in mortgage finance. We feel the system should be preserved for the benefit of savers, home buyers, and everyone associated with housing finance. When the Congress addresses the issue of the FSLIC next year, we hope it will look at the broader issue of the entire federal deposit insurance system and its reform. Balance can and must be restored to this system for the benefit of all Americans.

Chairman **Chiles**. Mr. Barclay.

STATEMENT OF GEORGE M. BARCLAY, PRESIDENT AND PRINCIPAL SUPERVISORY AGENT, FEDERAL HOME LOAN BANK OF DALLAS, DALLAS, TX

Mr. **Barclay**. Herb Sandler is always a tough act to follow, but I think the beauty of our system is that we have a chance to voice conflicting views.

It has been stated that half of FSLIC's problem is in Texas, and I think that I can bring a perspective to the committee, based upon my domicile in Dallas, Texas as President and Principal Supervisory Agent of a five-State region that is dominated by Texas. Seventy-five percent of the assets in the Ninth District are in Texas.

And those who have talked about the difficulties and the preponderance of the problems in Texas are correct. On a regulatory accounting principles basis, we have 124 insolvent institutions. That represents 46 percent of the institutions in the State.

If we go to generally-accepted accounting principles, we have 134 insolvent institutions, which represent 49 percent of the institutions in the State.

And Herb raised the issue of tangibly net worth institutions, and we have 153 on that basis. They represent 56 percent of the institutions in the State, and more importantly, they represent some 72 percent of the assets in the thrift industry in the State.

But I would like to say that I believe that the Southwest Plan is a comprehensive, integrated program to address the situation within the environment of the shortfall of resources that the FSLIC has.

The Southwest Plan was not created in a vacuum. It was created only after very carefully analyzing the factors that caused the losses being incurred by Texas thrifts.

And Herb is right—the losses are coming from an excessive level of interest expense over interest incomes. In Texas alone, if you factor in negative net worth as a non-earning asset, which it truly is, 40 percent of the assets of Texas thrifts in the aggregate, $100 billion worth of assets in Texas thrifts, are non-performing or underperforming.

Simply, what that means is that 60 percent of the assets of the institutions have to carry 100 percent of the costs, which until recently have been substantially higher than the interest costs of other institutions. There is no way in the world that institutions—and if you look at Texas as one, giant, $100 billion institution, there is no way that that institution can make money with that imbalance of earning assets and costing liabilities.

The Southwest Plan has been very carefully crafted to supplement and address the causes of those losses, first, by providing cash flows to supplement interest income; second, by reducing the cost of funds, by substituting core deposits and lower-cost Federal Home Loan Bank of Dallas advances for high-cost wholesale deposits; third, to reduce operating expenses through consolidation; fourth, to stabilize the value of real estate by not dumping property on already depressed markets; fifth, to attract new capital to the industry; and sixth, to maximize the value of troubled assets with private sector expertise, with incentives to work out those assets.

There are significant off-balance benefits of the Southwest Plan, and that is that the non-performing and under-performing assets of Texas thrifts are warehoused in successor thrift institutions rather than being dumped on the marketplace, the only result of which would be to cause a "freefall" in the value of Texas real estate, resulting in additional insolvencies of financial institutions that would have to be addressed with additional dollars from both the FSLIC or the FDIC.

Another off-balance sheet benefit of the Southwest Plan is the profit participations and equity ownership interests reserved for the FSLIC which over time may offset a significant portion of today's out-of-pocket case resolution expenditures.

Those who feel that FSLIC's efforts to stabilize and revitalize the Texas thrift industry are misguided and should be suspended ignore the fact that the hemorrhage is real, that it will not self-correct without FSLIC intervention, and that inaction will only increase the ultimate cost of resolution.

There has been much conjecture as to the size of the problem, both nationally and in Texas. Many numbers have been bandied about by self-proclaimed experts trying to "one up" each other without identifying their methods or assumptions and appear to me to be estimates of the cost of liquidation.

The liquidation of a significant majority of Texas thrift institutions is not a viable alternative, and if you accept that premise that we cannot liquidate 75 percent of the thrift industry in Texas, we have to look at the variables that impact the cost of the resolution which is the Southwest Plan. They were correctly identified earlier: timeliness of implementation; levels of interest rates; and the timing of the inevitable recovery of Texas real estate values.

Prompt implementation of the Southwest Plan will put a tourniquet on the $12 million being lost daily by Texas thrifts. I guess we are losing $12 of the $33 million that is being lost nationally. Prompt implementation of the Southwest Plan very, very importantly has proven already to have reduced the cost of funds of Texas thrift institutions. Between March and June of 1988, while the plan was being implemented, the cost of funds of Texas institutions fell 34 basis points compared to the national average of five basis points. If you apply that to the costing liabilities in Texas, there is roughly a $300 million savings in cost of funds. If you look at the existing difference, June 30, 1988 between the cost of funds for Texas institutions and the other thrifts nationwide, there is another 39 basis points that can be wrung out.

Together those 70-some basis points will provide $750 million of annual savings for FSLIC and for competing thrift institutions in Texas, not to mention the commercial banks in Texas and other thrifts nationwide to compete on a wholesale basis. If you multiply that by 10 years, that savings, just through implementation of the Southwest Plan and the substitution of Home Loan Bank of Dallas advances for high cost wholesale deposits, can save over $7.5 billion.

One other point I would like to make before I close is that it seems to me that when we talk about the deficit problem and if we are truly talking about the deficit problem in terms of liquidation costs, I recall in the early 1980's when interest rates were around 20 percent that other self-proclaimed experts were saying that the liquidation cost of the thrift industry was something between a range of $100 and $150 billion. Just as interest rates fell and invalidated those estimates, the value of real estate in Texas will inevitably turn around, somewhat invalidating today's liquidation estimates.

Some criticize Southwest Plan transactions as "thin" deals based upon one of two comparisons. First, many critics incorrectly compare the amount of an acquirer's investment which is used to capitalize the new institution with FSLIC's contribution which is based on the size of the whole or the size of the insolvency of the institutions to be acquired.

Others criticize the amount of capital being contributed as being insufficient for the risk it is meant to cover. This point of view is also arguably incorrect in that the capital injection need only provide coverage for those assets which are not covered under the terms of the FSLIC assistance agreement.

We have heard a lot of talk today about the fact that the strength and power of the U.S. Government is behind the FSLIC's notes and assistance agreement.

The Southwest Plan transactions consummated to date, all of which were individually crafted, have brought more than $300 million of new capital to the table in eight separate consolidations, all in accordance with the Bank Board's announced objectives.

In concluding, let me say that in my judgment liquidation of 75 percent of the thrift industry assets in Texas is not a viable option. Liquidation of insolvent thrifts will serve no other purpose than to further depress the value of real estate assets in Texas, ensuring the failure of additional banks and thrifts, and will delay the inevitable economic recovery by contracting the supply of available liquidity for the recovery.

I believe in the goals and objectives of the Southwest Plan. Without its continued implementation, the industry in Texas, whose capital base has diminished approximately $11 billion during the last 12 months, will continue to deteriorate to the detriment of all involved.

I thank you all for your attention.

Chairman CHILES. Thank you.

[The prepared statement of Mr. Barclay follows:]

STATEMENT OF

GEORGE M. BARCLAY
PRESIDENT
PRINCIPAL SUPERVISORY AGENT
FEDERAL HOME LOAN BANK OF DALLAS
DALLAS, TEXAS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

OCTOBER 5, 1988

Good morning, Mr. Chairman and members of the Committee. I am pleased to have the opportunity to testify today concerning the Southwest Plan and the thrift industry in the Ninth District which includes the states of Texas, Louisiana, Arkansas, Mississippi and New Mexico.

I: CONDITION OF THE THRIFT INDUSTRY IN TEXAS

The thrift industry in the Ninth District is driven by the 260 Texas institutions whose $98 billion of assets represent approximately 75% of the combined assets in the district.

Unfortunately a preponderance of the assets of Texas institutions are controlled by the 124 thrifts which are insolvent on a regulatory net worth basis, 134 according to generally accepted accounting principals. These institutions were primarily responsible for Texas thrift industry losses of approximately $11 billion for the twelve months ended June 30, 1988.

II: THE SOUTHWEST PLAN

The Southwest Plan is a comprehensive, integrated response to the thrift industry's continuing deterioration in Texas which has been brought about in part by a regional economic dislocation and by a shortfall of regulatory resources to deal with the newly deregulated thrift industry in the early 1980s.

The Southwest Plan was not created in a vacuum but only after carefully analyzing the factors which cause the losses being incurred by Texas thrifts. Careful analysis indicates that the causes of these losses are (1) a shortfall of interest income brought about by high levels of non-performing and under-performing assets, (2) a prohibitively high cost of funds (3) and an excessive level of operating expenses brought about by too many thrift retail facilities.

The Southwest Plan has been carefully crafted (1) to supplement the cash flows from the non-performing and under-performing assets of acquired institutions, (2) to reduce the cost of funds by substituting core deposit and lower cost Federal Home Loan Bank of Dallas advances for high cost wholesale deposits, (3) to reduce operating expenses through consolidation, (4) to stabilize the value of real estate by not dumping property on already depressed markets, (5) to attract new capital to the industry, and (6) to maximize the value of troubled assets with private sector expertise with incentives.

Significant "off-balance sheet" benefits of Southwest Plan transactions are that the non-performing and under-performing assets of Texas thrifts are warehoused in successor thrift institutions rather than being dumped on the marketplace, the only result of which would be to cause a "freefall" in the value of Texas real estate, resulting in additional insolvencies of finacial institutions that would have to be addressed with additional dollars from both the FSLIC or the FDIC.

Another "off-balance sheet" benefit of Southwest Plan transactions is the profit participations and equity ownership interests reserved for the FSLIC which over time may offset a significant portion of today's out-of-pocket case resolution expenditures.

Those who feel that FSLIC's efforts to stabilize and revitalize the Texas thrift industry are misguided and should be suspended ignore the fact that the hemorrage is real, that it will not self-correct without FSLIC intervention and that inaction will only increase the ultimate cost of resolution.

There has been much conjucture as to the size of the problem, both nationally and in Texas. Many numbers have been bandied about by self-proclaimed experts trying to "one-up" each other without identifying their methods or assumptions and appear to me to be estimates of the cost of liquidation.

If liquidation of a significant majority of the Texas thrift industry is not a viable alternative, the debate should shift from a liquidation senario to estimating the cost of implementing the Southwest Plan. There are three important variables which must be considered in such a process: (1) timeliness of implementation, (2) levels of interest rates, and (3) the timing of the inevitable recovery of Texas real estate values.

Prompt implementation of the Southwest Plan will put a tourniquet on the $12 million being lost daily by Texas thrifts from operations. Prompt implemetation of the Southwest Plan will reduce the cost of funds for not only Plan institutions but those who must compete with them as core deposits and lower cost Federal Home Loan Bank of Dallas advances replace high cost wholesale deposits and as the "Texas Premium" is squeezed out of the marketplace.

It seems to me that I recall a time in the early 1980s when short term interest rates approximated 20%, that other self-proclaimed experts were saying that the liquidation cost of the thrift industry was something in a range of between $100 and $150 billion. Just as interest rates fell and invalidated these estimates, the value of real estate in Texas will also inevitably turn around, invalidating today's liquidation estimates.

Some critics characterize Southwest Plan transactions as "thin" deals based upon one of two comparisons. First, many critics incorrectly compare the amount of an acquiror's investment which is used to capitalize the new institution to FSLIC's contribution which is based on the amount of insolvency of the institutions acquired.

Others criticize the amount of capital being contributed as being insufficient for the risk it is meant to cover. This point of view is also arguably incorrect in that the capital injection need only provide coverage for those assets which are not covered under the terms of the FSLIC assistance agreement.

The Southwest Plan transactions consummated to date, all of which were individually crafted, have brought more than $300 million of new capital to the table in eight separate consolidations, all in accordance with the Bank Boards announced objectives.

III: SUMMARY

In my judgement, liquidation at 75% of thrift industry assets in Texas is not a viable option. Liquidation of insolvent thrifts will serve no other purpose than to further depress the value of real estate assets in Texas ensuring the failure of additional banks and thrifts and will delay the inevitable economic recovery by contracting the supply of available liquidity.

I believe in the goals and objectives of the Southwest Plan. Without its continued implementation, the industry in Texas, whose capital base has diminished approximately $11 billion during the last 12 months, will continue to deteriorate to the detriment of all involved.

Chairman Chiles. Senator Exon.

Senator Exon. I certainly do, Mr. Chairman, thank you for recognizing me.

Gentlemen, I want to thank all of you for coming here and giving us this tremendous testimony to help put this in perspective for the Congress.

Mr. Sandler, I do not disagree with your overall presentation. Congress has to take its share of the blame. The Congress is split up into many different segments. By nature, we have to look to certain people that guide us in some of these matters.

While the Congress obviously has a major share of the responsibility for the mess that we are in, you would also agree that the Reagan administration had a small hand to play in it?

Mr. Sandler. I think it went through several Administrations and through Congress. I do not want to restrict my blame, sir. I am very generous in that way.

Senator Exon. I am a Democrat, and I wanted to make that point.

Mr. Sandler. So am I, but I did not want to get attacked. [Laughter.]

Senator Exon. Mr. Wolf, I listened very carefully to all of your testimony. It was all excellent. You heard my question to Mr. Wall regarding the ticking time bomb. Do you feel that this problem that you have addressed here this morning with your testimony is, indeed, a ticking time bomb, if not a wholesale earthquake, with regard to the soundness of our financial institutions?

Mr. Wolf. I guess I would lean more to the second analogy than the first. This thing is ticking pretty loud. And it is going to blow up, if it has not already blown up. I mean, the problem is there. We have not yet gotten to the point where we are really resolving all of the problem.

Senator Exon. I would say to you, gentlemen, that this is part and parcel of what is going on right now, which is to put everything off until somebody else's watch.

I believe I am correct, Mr. Chairman, by noting that after the magic April 15th date for the sequester figures that came to us from OMB and others, suddenly the FSLIC came up with an additional $5 billion shortfall. It does not count, of course, for the sequestering. But I think it is quite interesting to note that that increase came about shortly or immediately after that cutoff date.

It is true, is it not, Mr. Chairman, that even though the budget is out of whack by an additional $5 billion that it will be ignored as far as implementation of any sequestering for this year on Gramm-Rudman; is that right?

Chairman Chiles. It is ignored this year, but it will come back to fight us next year.

Senator Exon. Once again pointing out that we are putting everything off until somebody else's watch. I am going to say this, Mr. Chairman, because I think it needs to be said, and read my lips. [Laughter.]

I want to charge that I think there is a conscientious effort not to do what is right, but to do what is expediently right at this particular time. And the good Lord willing, most of us will be sitting around this table next year and maybe the years after that. This ticking time bomb financially is going to blow up in our face.

I think this hearing, Mr. Chairman is a tremendously important one. I gave a speech on this subject on the floor of the Senate 10 days ago trying to get it all in perspective. Once before that, I was talking in the $50 to $100 billion range of financial loss; it may go higher than that. I appreciate the wild statements that some thought I was making at that time are being substantiated this morning.

I could not agree more with the testimony that has been given here. The longer we put off action, the worse it is going to be. We have got a cancer eating away at the basic financial structure of America. And the tendency is to put it all off; even the fabled Gramm-Rudman law was gotten around, covered up.

Thank you for being here, gentlemen. I hope that your testimony will be looked at and reviewed by all Members of the House and Senate.

Thank you, Mr. Chairman.

Chairman **Chiles**. Thank you, sir.

In your testimony, Mr. Wolf, you suggest the current scorekeeping treatment of these agreements should be changed, and that the assistance agreements should be treated like notes. Could you explain your rationale for this recommendation for the benefit of those of us here who might not spend every waking hour figuring out what the intricacies of budget scorekeeping are? It might help to explain the scorekeeping treatment of notes and the rationale behind the recent change.

In addition, if you could just tell us briefly again what would be the budget impact of your change?

Mr. **Wolf**. Well, right now, the normal treatment is when outlays are made, they are reflected as a cost to the Government and increase the deficit. In the case of FSLIC notes, it was decided by OMB, CBO, I believe your people were involved in it—we were asked by a number of people—that those are really essentially nothing more than a substitute for cash and should be treated as outlays when the notes are issued.

We do not see any significant difference between the guarantee agreements and the notes which would cause them not to be reflected as a cost. FSLIC is making a conscious decision to use guarantees versus notes, and it is being driven to some degree by whether it is in the budget or not.

Now, that is all a cost when we make these transactions, and we think all of them ought to be picked up in the budget and reflected in the Gramm-Rudman calculations, in the deficit calculation, and the projected budget.

Mr. **Barclay**. Mr. Chairman, could I address that issue one more time? Because I think there is a difference of opinion.

The way we at the Dallas bank look at FSLIC guarantees are that FSLIC guarantees are guaranteeing the performance of an insolvent member who has borrowed from the bank. And as I mentioned, during 1986 we had $1.5 billion of FSLIC guarantees that we had accepted. Today, we have only $20 million.

The reason for that is the institutions did not default on their debt, and the institutions to whom the guarantees were outstanding were later folded into other institutions and merger-type acquisitions and provided other collateral to replace the guarantees. And I am not comfortable with these terms; I may be wrong, but if you had scored or recorded the guarantees of an expenditure at that point in time and ultimately they were no longer needed because the chance of the institution not performing on its advances had gone away, it would seem to me that you would be recording something as an expenditure that did not take place.

Mr. Wolf. I acknowledge that there is an estimating issue involved in calculating the value of some of these. But to imply that any of these yield maintenance agreements and other guarantees are going to essentially evaporate, I think is just absolutely wrong.

Mr. Ely. I wonder if I might add to that also, Mr. Chairman.

These are not just mere contingent liabilities of the FSLIC. These are liabilities under which a lot of cash is being paid out. According to FSLIC's own figures, $309 million was disbursed in the first quarter of this year under these agreements; $466 million in the second quarter; and in a projection of its receipts and expenditures for the third quarter of 1988, FSLIC was expecting to disburse slightly over a billion dollars under its assistance agreements. Now, how much they actually disbursed, I do not know. This is a very substantial amount of money that is flowing out of FSLIC every day under these agreements.

I would echo what Fred Wolf and others have said, and that is that these assistance agreements need to be put on budget and treated like notes. As one person characterized them, they are nothing more than non-note notes. They are legal obligations under which substantial cash outlays are being made.

Chairman Chiles. It seems like FSLIC has been entering into some very complex, convoluted deals in resolving so many cases. We on the Budget Committee spend a lot of time tracking down information about these deals and the credit arrangements underlying them. I am still not sure there is anyone even at FSLIC who can fully predict the exposure that we face.

FSLIC's grant of authority to resolve cases seems so broad that once you nail down one type of deal, another one pops up. In my time on the Budget Committee, I found that the more complex and elegant a deal is, usually the more money is going to be spent.

I am concerned that we have a situation here where an agency with a very extensive and expensive problem on its hands has an unlimited draw on the Federal Treasury. There are currently no annual limitations on what FSLIC spends each year.

Should we establish at least a principle of congressional control on FSLIC experience? And I would like to ask each of you just to briefly tell me what you think about that.

Mr. Sandler. You clearly have to establish congressional control, Mr. Chairman, but I would like you to put this all in context. There is a choice between no action and action, and the costs and consequences of either. Clearly, the most intelligent way to deal with the current problem, whether the loss is $50 billion, $75 billion, or $100 billion, is to do two things: to appropriate the money directly in cash through a bonding authority or by giving full faith and credit to the notes. If the S&L industry has to pay for a portion of it, then charge us later on. But if you charge us over 30 years, you are not going to solve the problem today because you need to solve the problem today. The losses are continuing.

So FSLIC is in a bind. As much as I have been attacking FSLIC, I have to admit they are in a bind. They have limited cash; they have notes which they issue which do not have full faith and credit. I cannot, as a publicly held company, touch those notes. It is not just technical AICPA problems. It is a businessman's judgment: Do I jeopardize my company taking the notes of an insolvent corporation, which may or may not have the full faith of the U.S. Government?

So what FSLIC is doing is making deals with companies themselves that are almost insolvent or shortly would be insolvent. It is a terrible way to do business. From their perspective, they are saying, my God, I do not have the money; the big strong companies will not come and do business with us. So they are going to issue notes because they have got to do something with these brain-dead institutions, many of which have managements that have to be thrown out. They have got to do something.

So they are in a trap, and you are in a trap. And the losses have occurred. What you have got to do in the absence of appropriated money is at least give FSLIC notes full faith and credit so they can deal with strong companies rather than with the garbage companies, and put on limits and constraints retaining congressional oversight. That is the only way you will do it. Because if you do nothing, they are going to continue to write paper one way or the other, because they cannot let the company sit there and disappear because that would be the most costly thing to do.

Chairman CHILES. Mr. Wolf.

Mr. WOLF. You have got a two-edged sword here. They have got to close many of these institutions, and they have got to have some way to do it. And the only way they can do it is with IOU's one way or the other.

Conversely, there has got to be some kind of congressional control. I think you can do that by a cap, but the cap has got to have something. I will give you one type of an approach—it may not be the best—where it says you get up to this amount, you cannot issue more for a period of time, let us say 180 days or 120 days. After that, the cap either goes up or whatever action or disposition is specified happens; but it gives Congress a period of time to act, and the bank board have to report to you.

So, yes, a cap is needed, but do not make it such that there is absolutely no way that they can continue to close institutions.

Chairman CHILES. Mr. Ely.

Mr. ELY. I think there has to be strict congressional control, but still FSLIC needs to move as quickly as possible. As many of us have said, the problem is growing at such a pace that it does not get better with time.

But I would say this with regard to the notes: Cash outlays are superior to notes for two reasons. One, the cash outlays will have to be funded with debt issued by the U.S. Treasury. That will be cheaper than the notes FSLIC now issues, and even cheaper than FSLIC notes with full-faith-and-credit guarantee. If the FSLIC clean-up is going to cost the taxpayer money, let us do it the cheapest way possible. And the cheapest way is with direct Treasury debt.

Two, coming back to a point you made a few minutes ago, if you use cash right up front and say, here, take the cash, we have cleaned up the problem and now, Mr. Acquirer, go away, that will lead to the simpler deals that ultimately are going to be cheaper for the taxpayer.

Chairman CHILES. Mr. Barclay.

Mr. BARCLAY. We do need to address the situation right away, and I am very appreciative of FSLIC's addressing the situation in the Ninth District.

The chairman this morning repeated his pledge not to commit the agency to more expenditures than its future cash flows would dictate. I think that what we need is not an absolute limit in dollars on what FSLIC can do, but an accounting responsibility placed on FSLIC to prove, over time, going forward, that the commitments that they are making are not in excess of their future cash flows.

Senator EXON. Mr. Chairman, if I could just add something in right here. Maybe one thing we could do to get at least some accountability or recognizing the problem would be to amend the triggering mechanism under the famed Gramm-Rudman. The estimating agencies would have to consider these commitments and these obligations as a part of figuring whether or not we have exceeded the triggering mechanism. At least that would be one indirect way of drawing our attention to the problem, and maybe we would have some more oversight on the whole system.

Chairman CHILES. Gentlemen, I will have some more questions for the record and several of the other Senators will.

Senator Wirth.

Senator WIRTH [presiding]. Thank you, Mr. Wolf. I appreciate your being here, and all of you, I appreciate your being here and your patience in spending so much time with us.

Like other members of the panel, I think we are all appalled by the size and scope of the problem that we face, and you all have been very good at touching on that. I wanted to, if I might, just briefly look at a couple of the other issues that it seems to me we ought to be asking about.

One of those relates to one of the issues raised by Mr. Sandler, but that has come up elsewhere as well, and that is the competency of the Federal Home Loan Bank Board in making a lot of the decisions that they have made. We are talking about billions and billions and billions of dollars.

It seems to me that we want to be assured that the staff that is doing this and doing these assessments are up to the task and, are the equivalent of the kind of people that will be making hundreds of millions of dollar decisions in the commercial banking world.

Do you know anything about that, Mr. Wolf? Do you have any sense of the competency of the staffs that we are dealing with here?

Mr. WOLF. I am going to have to take a pass on that in general terms. I think that Mr. Sandler hit one point which was extremely important in terms of the problem that we have got now. I think it indirectly talks about what you are talking about.

There is no question that one of the worst decisions that was made was when OMB flatly refused to give any more examiners to FSLIC.

Senator WIRTH. And when was that?

Mr. WOLF. I would have to go back. I think 1984 and 1985. I may be off by a year. But there was an absolute decision: We will not provide any examiners, although everybody knew we needed it. The bank board has been trying to play catch-up since then.

Senator WIRTH. Who made that decision not to provide any more help to the troubled industry?

Mr. WOLF. OMB was the one that made the decision. I am not sure of the specific individual.

Senator WIRTH. What mechanism do we have for examining? I mean, does GAO do that sort of thing? Do we make a request to you to kind of look at the capability of this?

Mr. WOLF. In fact, we are looking. I believe we have a job going on right now to take a look at some of the examination operations.

If I could draw a contrast, my group does the audit of FSLIC and FDIC. Let me put it other than this past year because I am not sure I have asked our people recently enough to say for this year. But we have always been struck by the vast difference between FDIC and FSLIC in carrying out their role as regulator. FDIC has been first and foremost, in our opinion, a regulator and an industry advocate maybe third or fourth. FSLIC has been the opposite, and that is a part of the problem.

Senator WIRTH. FSLIC has been first and foremost an industry advocate and third or fourth been a regulator fulfilling what their responsibilities are in the law?

Mr. WOLF. That is how I would characterize it. Now, I am not trying to put that in the context of the last year or so. There have been a lot of changes and a lot of things done. But traditionally, that has been a real problem.

Senator WIRTH. Now, how do we go about getting you to take a look? Should the Banking Committee make that request? I am a member of the Banking Committee as well. Should we make that request to you to really look at this capability? If, as we all know, this problem is going to be going on for some time, it seems to me that one of the things that we want to do is to assure that the stewardship of this money is as carefully carried out as possible. Is that not right?

Mr. WOLF. Yes.

Senator WIRTH. And if the capability is not there to do the job, the problems and the commitments that get made may be just papering over problems. Are we going to be back readdressing these problems a year from now or 2 years from now or 3 years from now? Is that right?

Mr. WOLF. There is some possibility that some of the deals will fall apart. There have been an awful lot of deals made in the last 3 months. If you think about it, $20 plus billion worth of deals in a 3- or 4-month time frame is a lot to expect that any organization will get them all to the lowest cost.

Senator WIRTH. Say that again? How many dollars worth of deals in what period of time?

Mr. WOLF. I would say $20 billion in a 4-month period of time.

Senator WIRTH. Twenty billion dollars in a 4-month period of time?

Mr. WOLF. Using the cash base, yes, around $20 billion.

Senator WIRTH. What does a major New York commercial bank make in a 4-month period of time?

Mr. WOLF. I am not sure I could tell you that. Herb might be able to tell you what his volume is in a month.

Senator WIRTH. What would be your guess? What is the largest bank? Citibank?

Mr. WOLF. Citibank is the largest, but I do not know what they do on a monthly basis in terms of deals and transactions.

Senator WIRTH. Anybody have any sense of what that would be? Just by comparison, just illustrative.

Mr. WOLF. Well, Citibank is, what, a $200 billion institution, total. I would be surprised if they do more than $30 billion worth of lending in a 3-month period.

I could be wrong on that, though.

Mr. BARCLAY. Senator, may I make a comment on that? At the Dallas bank where we regulate the industry, and particularly in Texas where these deals are made, we see a responsibility to make sure that these deals do not fall apart. And toward that end, in my first budget since I have become the president and principal supervisory agent, we have increased the regulatory affairs budget at the Dallas bank for 1989 by $10 million. That is roughly from $28 million to $38 million. That is about a 33 percent increase in our budget. And we have added about 123 new people to monitor these transactions going forward to ensure to the best of our ability that these new people coming into the industry and the other partners of FSLIC who are currently in the industry handle themselves appropriately.

Senator WIRTH. It sounds good, Mr. Barclay. I am just asking how do we go about looking to make sure that that is the case. If I were you, I would probably make the same argument.

Mr. BARCLAY. Well, I am trying to point out that we have thought of this. For example, the budget last year did not increase a penny. We did not increase a person in 1988 over 1987, but the massive increase of the regulatory apparatus at the bank I think at least says that the agency and the bank are looking at this responsibility and taking it seriously.

Senator WIRTH. So really, going back to where we were on this, it is that the largest commercial financial institution in the United States, Citibank, with all of its capability and experience and so on, made approximately the same size of commitments as the Federal Home Loan Bank Board made in a similar period of time? This is a rough parallel, Mr. Sandler.

Mr. SANDLER. I am a little concerned whether we are getting two things confused. What FSLIC has done is resolved cases, not make loans.

Senator WIRTH. I understand. I am just looking at here is an enormous commitment of billions of dollars, and was the capability there to do it right in terms of being careful about shepherding ultimately a lot of taxpayers' dollars?

Mr. **Wolf**. These deals are more equivalent to mergers and acquisition transactions than they are to normal lending transactions.

Senator **Wirth**. If you were a Morgan Stanley or a Salomon Brothers, would you hire the people who were at the Federal Home Loan Bank Board to do major merger and acquisition jobs?

Mr. **Wolf**. I do not know.

Senator **Wirth**. It seems to me that we are at that magnitude of what we are looking at, and this is instructive for us to think about.

Let me ask you a second question. What do we know about the capability of the people who are on the receiving end of this deal? Is there some way of looking at that to make sure that the individuals who are the beneficiaries of these settlements or whatever are capable of carrying out the job?

Mr. **Barclay**. I may be best able to address that, at least start off the conversation, because I am closer to those people who are the recipients or the beneficiaries, as you phrase it, in these transactions.

Senator **Wirth**. Which may or may not be a good thing to be that close to them. But I understand.

Mr. **Barclay**. Well, not close to them in the sense that we do not put the deals together. The FSLIC negotiates the financial terms; the FSLIC identifies the potential acquirers.

We at the Dallas bank go out and look into the capability of people coming into the industry. And when you look at people with the track record and reputation of Bob Dedman of Club Corporation of America, of Jim Grosfeld of Pulte Homes——

Senator **Wirth**. What do we know overall about the capability of these individuals and how well they are going to do? I mean, you can be anecdotal until the cows come home. What do we know analytically about the capability of these individuals? I do not mean to interrupt, Mr. Barclay. I understand the defense that you all have to make. That is fine. I would do that if I were you. I am just trying to look at it from a bit of a different perspective.

Mr. **Barclay**. All you know at this point in time is their track record, proven or unproven, as you look at them. What have they done throughout their business experience? And if you look at those track records of those institutions, the net worth of the institutions during the acquiring, the profitability—Lone Star Steel, who acquired a number of institutions, is operating a steel mill in Texas.

Senator **Wirth**. Is there some template that these people have to go through? I mean, how does the Federal Home Loan Bank Board make a decision that *x* person is qualified and Y person is not?

Mr. **Barclay**. Absolutely. We had three people in Chicago for 3 days examining the track record and the records of potential acquirers. We look for things. They go through fingerprints, FBI checks. We also look at judgments that may be against them.

Senator **Wirth**. Mr. Sandler.

Mr. **Sandler**. Look, these deals are flawed for the reasons I indicated before. You do not have cash to give healthy acquirers, and the notes do not have full faith and credit. So let us talk about the actual deals they are doing.

The first deal they announced was Coastal Bank. They took a small company—do not hold me to exact numbers; it was a $60 million company, and they gave them about $400 million more in assets of insolvent companies. The original company had a net worth of $3 million. They promised to put in another $3 million for a total of $6 million capital to support a $500 million to $600 million company. That is just crazy in the first place because no healthy company would take the notes.

But I want to go further. The management of the $60 million company had been a couple of people who had been registered representatives at an investment banking firm, had made this small investment, and all of a sudden instead of running a $60 million operation—which, incidentally, was a mortgage-backed securities arbitrage operation—they are suddenly now full-time into a major S&L with a lot of bad assets, and they have had zero experience.

The second deal was the Southwest deal, by coincidence the same name as the Southwest Plan, and the people who were managing that company, which also has zero capital in it at risk, are the same people who had been operating Southwest before, a failed company.

You go through the deals on and on and on. They are weak. They will occasionally point, as George Barclay did, to an occasional strong company. I get very nervous when a company comes from the outside to take over a distressed thrift, accepts notes which are not backed by the full faith and credit, and I would ask the question: Do they have an ulterior motive? Is there a hidden agenda? That is what I am worried about.

Senator WIRTH. Mr. Ely, do you want to comment?

Mr. ELY. I think the caliber of the deals have to be questioned, particularly in the Southwest, for two reasons. First of all, we are seeing very thinly capitalized deals. We are seeing crap-shoots. Good businesses do not go into deals on that basis. We are not seeing well-capitalized transactions.

The second thing is who is not making acquisitions. Strong out-of-State thrifts, particularly the California thrifts, are not coming in and making acquisitions that would bring needed geographical diversity to what is essentially a bankrupt thrift industry. Nor do we see any commercial banks making acquisitions in Texas, even though they have the power to do so and in some cases have done so under existing Federal Reserve regulations.

I think it is both the issue of who we do not see coming into Texas, coupled with these very thinly capitalized deals, which have to raise real questions about the quality of the FSLIC deals. To echo what Mr. Wolf said a few minutes ago, I think we are going to see a number of these deals come unglued in the next few years, at even greater expense to FSLIC.

Senator WIRTH. Mr. Wolf, I want to move on to the third part.

Mr. WOLF. Just one comment, though. Danny Wall has probably got the worst job in town. You have got to admire the fact that he is trying to do something.

Senator WIRTH. Well, I mean, he asked for the job and lobbied for it very hard. So let us not cry any tears over him. He wanted to do it. [Laughter.]

Mr. WOLF. Beats the hell out of me why he would want it.

Senator **Wirth**. He did not get drafted, right, unlike Danny Quayle. Danny Wall is all right. [Laughter.]

Mr. **Wolf**. But you have got to keep in mind that these institutions are not ones that very many people are going to want. These are really hopelessly insolvent messes.

Senator **Wirth**. I understand that, but there are also, to make them whole, to clean them out, an awful lot of taxpayers' money is being put at risk.

Mr. **Wolf**. Yes.

Senator **Wirth**. And as that taxpayer money is being put at risk, it seems to me that we have an obligation to look at the stewardship of that if it is not being done, as many allegations have been made, as carefully as it should have been by the Federal Home Loan Bank Board. And it seems to me we have an obligation that if that has not happened in the past, let us see what has to be done or get a better fix on what has to be done in the future. Are we providing the resources or the appropriate oversight or whatever has to be done if the Bank Board is not doing it? I mean, that is the point.

I am not here to knock Danny Wall. I just think that these questions ought to get asked, and we should not be embarrassed about asking them or answering them. And I appreciate your forthright response to these, Mr. Barclay.

Let me ask you a third part. What do we know about the profile of the people who are the recipients of these deals? Why does one person get a deal and somebody else who might have applied for that deal does not get it?

Mr. **Barclay**. It is pure economics, Senator.

Senator **Wirth**. Is it all pure economics? Do we know that?

Mr. **Barclay**. To the best of my knowledge—and I deal very, very closely with the FSLIC people—they get competitive bidding on these deals.

Senator **Wirth**. Do we know that for sure? I mean, you are sure of that, Mr. Barclay, that there are no other considerations in it? It is pure economics? If one person comes in, is willing to offer, say, $500 million, and the other person coming in was willing to offer $400, the person at five is going to get it? Is that right?

Mr. **Barclay**. The answer to your question is, to the best of my knowledge—and I believe my knowledge is correct because I deal very closely with those people—it is pure economics. The simple example of $500 million and $400 million is over-simplified in a sense. There are many, many terms——

Senator **Wirth**. I understand that. But we are here talking a kind of shorthand. I just want to make sure of that. How do we know that there is not any kind of cronyism involved in this or there is not any kind of an "ol' boy" network or whatever it may be in terms of the granting of, the making of these deals? Is there a surety that that does not happen?

Mr. **Barclay**. We have a lot——

Senator **Wirth**. Mr. Barclay, I appreciate you have got a job to do, in terms of defending what you do. I want to know what is the evidence? Is there any kind of an analysis that has been done to make sure that the people who are the best qualified, who have the soundest financial package are, in fact, the people getting these deals?

Mr. **Barclay**. Sir, excuse me, Senator. As far as word gets out around this town—I am from Dallas, and I marvel at it. But if there were deals being done that were not based on the economics, the losers would be out there saying that that is the case, and there would be investigations going on to document that.

Senator **Wirth**. Have we heard anything, have you all heard anything from any losers that, in fact, quality has not been the only criteria, but there have been some other criteria in the granting of these deals? Have you ever heard anything about that, Mr. Ely?

Mr. **Ely**. Quite a bit.

Senator **Wirth**. What have you heard?

Mr. **Ely**. Well, the basic sense is that the thrust of the Southwest Plan is to preserve the Texas thrift industry as it now is with all of its institutions staying free of out-of-State control, which has not happened in the Texas banking industry. In other words, the feeling is do not let happen to the Texas thrift industry what is happening to Texas banking.

So the acquirers of Texas thrifts either are located in Texas; or if they are located out-of-State, they are still going to maintain the acquired institutions as institutions that are headquartered in Texas. And that basically is what is occurring in these transactions.

We do not see in Texas the interstate consolidation of the thrift industry that we have seen in the rest of the country throughout the 1980's.

Senator **Wirth**. So if you are from Texas, you have a better opportunity for making one of these deals than if you are not from Texas? Is that a summary of what you are suggesting? And is that a bad thing? I mean, I do not know. Maybe Texas people are smarter than people outside of Texas. I mean, tell me. What is wrong with that?

Mr. **Ely**. Again, you have to look at the evidence in terms of the deals that have been done. There is only one deal that I will call a true interstate thrift acquisition, and that is Merabank, and it already had some branches in Texas.

Senator **Wirth**. Would it be a good idea for us to look back at these many deals that have been made. What choices were made by the Federal Home Loan Bank Board and who was allowed to make the deal and who was not, and see if there is any consistency in this?

Mr. **Ely**. Post mortems of Southwest Plan transactions would be very valuable particularly to look at the process of who was able to get into serious negotiations, and to find out why more out-of-State depository institutions have not done deals in Texas. The Texas deals just do not make sense, particularly when compared with the rest of the country.

Senator **Wirth**. Do you have any comment on that, Mr. Sandler?

Mr. **Sandler**. I would rather not comment.

Senator **Wirth**. Why is that? I mean, tell me. I am asking you a question. Here we are at a hearing, and you say you would rather not comment. That is loaded with all kinds of implications that something is amiss out there.

Mr. **Sandler**. Senator, when I testified before Senate Banking, I prefaced my remarks by saying that what I would say at that hearing would undoubtedly cause my company problems because I am a "regulatee." I am regulated. That is why you have not seen a lot of thrift institutions coming forward, or banking institutions, I am sure, for that matter, and saying what they think about policies because we always have applications pending.

Senator **Wirth**. If you were critical, there would be retribution from the Bank Board?

Mr. **Sandler**. I do not know if there would be or not. I may be outspoken.

Senator **Wirth**. We have noticed that a little bit.

Mr. **Sandler**. But I try not to be stupid.

Senator **Wirth**. Well, how do we get around that, Mr. Wolf? I mean, if in fact there are a lot of problems, as suggested perhaps by Mr. Ely saying looking back might be a good idea, you know, whatever the implications are of Mr. Sandler's statement, how would we systematically look at who gets to make these deals?

Mr. **Wolf**. Well, I guess the thing you have to do is you have to go in and take a look at the completed deals and see what were the competing proposals and try and evaluate them.

Senator **Wirth**. Is that something that could be done?

Mr. **Wolf**. I do not know any reason why it could not be.

Senator **Wirth**. Do you think that would be a valuable thing to do?

Mr. **Wolf**. Probably useful for somebody to do that, yes.

Senator **Wirth**. To be looking at that.

Let me ask you a final question related to this. Have you ever heard of any politics being played in the making of these deals, that if somebody was of a particular political persuasion that a deal was easier to make than if they were of the other?

Mr. **Wolf**. No; I have not.

Senator **Wirth**. Have you, Mr. Ely, ever heard of that?

Mr. **Ely**. No.

Senator **Wirth**. Maybe it is sour grapes, but I will tell you that there are a variety of these things coming over the transom now to, I am sure, every member of the Banking Committee. We're in touch with a lot of individuals who are bluntly saying, with a lot of the caveats that you put on it, Mr. Sandler, that there are a lot of political deals being made in this operation and that there is a lot of cronyism involved in that.

Now, that is a heavy kind of a thing to say. I do not know if it is true or not, but when it comes with the consistency that I have gotten it—and I will bet you, I know that a lot of other members of the Banking Committee have received them—that suggests to me that where there is smoke, maybe there is fire. We certainly ought to be doing everything to discourage anything like that. That is totally inappropriate, and we ought to go back and take a look at what has been going on, what went on previously.

Mr. **Barclay**. For the record, I do not believe that exists. I know of no instance where political influence has been brought to bear on who has gotten the deal.

Senator **Wirth**. Well, I would hope that you would say that. Absolutely. I hope that that is the case.

Mr. **Barclay**. And I would not say it if it were not true, Senator.

Senator **Wirth**. But I have just heard enough of this from a variety of places, and I am in an area of the country where we are hearing a lot about troubled thrifts, as you well know, Mr. Sandler.

Mr. **Barclay**. I have talked to many of the under-bidders, and they are back in bidding on new packages. They want to be part of the system. They understand why their bids were not successful, and they are back in bidding again.

Senator **Wirth**. Mr. Ely.

Mr. **Ely**. Senator, I would just suggest that there are lots of different kinds of politics besides partisan politics or party politics, including industry policies. If people are going to look at these deals from a political standpoint, it is important to look at them from a number of different political perspectives.

Senator **Wirth**. I appreciate that. I think that is right.

Let me just as a final question on this, Mr. Wolf, we have talked about the staff, we have talked about the recipients, we have talked about the quality of the deals, and we have talked about the criteria under which those deals were made—four items. How difficult would it be to develop, and how long do you suppose it would take, for, say, us to ask you to undertake, to frame such a study for the GAO and get back?

It seems to me that if we are looking down the line, as everybody suggests, that at least what Mr. Wall said this morning, $35 billion, to use your words, you are a hopeless optimist if you think it is less than $60 billion. Figures of $100 billion have been very much in the press the last couple of weeks. We are talking about significant assets and significant taxpayer dollars. Do not we have an obligation to assure, again, that the stewardship of those and the criteria under which those deals are made are as well thought through as possible? And I would think that Mr. Barclay and company would welcome that and would want to come in and say, hey, we need help doing this, that, or the other thing. Maybe you do. I do not know.

Mr. **Barclay**. You have a Bank Board of high integrity and good intentions. You have a leadership of FSLIC of high integrity and good intentions. And I cannot speak for them, but I am sure they would welcome that type of review.

Senator **Wirth**. How long do you think that sort of thing would take, Mr. Wolf? One, is that a good idea to do, in your opinion? You know a great deal more about this than I do. Is this the sort of thing we ought to be undertaking? And if so, how long would it take to do this sort of thing?

Mr. **Wolf**. You realize that I have five people back here that if I commit to doing this, they are going to be concerned about time frames and resources.

Senator **Wirth**. No, no; I am not going to ask you to commit to do it because I know that is unfair. And I do not believe we would ever want to do this sort of thing without spending a lot of time talking to you. I have never done a GAO study or asked for one without spending a great deal of time with the GAO framing the question, making sure it had not been done, and making sure that the taxpayer resources that go into this are, in fact, worthwhile. I am just on patrol to see if we ought to be considering this.

Mr. WOLF. Yes; in fact, we have got two things going that will provide the base for much of that. One, when we do our financial audit, which we are sort of starting now, we will be looking at completed transactions, trying to assess whether the estimate of cost is reasonable. And we will also probably look at some other parameters related to it.

We have got a second review—it may not be a formal request, but I think it has at least informally been discussed—to take a look at many of these deals and to look at some of the issues you are talking about. If you want to have a slightly different slant or some additional questions, I do not think that would be a big problem.

Senator WIRTH. I do not want to reinvent the wheel. If we can piggyback on something else, if it is already being done, great.

Mr. WOLF. Yes, I think we can.

Senator WIRTH. Or if it ought to be expanded, in your opinion or that of your professional staff.

Mr. WOLF. No; I think we can do that. I would hope that this year we can have the financial audit completed early in the year—last year, we were able to at least testify about the results of the audit, although we did not have all the report ready in late March. I would hope that we could do that same kind of thing for this year's audit, and I think at that point we will have done enough work in looking at deals that we will be able to comment on those specifically.

Senator WIRTH. In late March?

Mr. WOLF. Yes.

Senator WIRTH. Late March this year.

Mr. WOLF. Yes.

Senator WIRTH. Should we get a letter to you or talk to one of your people about it? Can we get back to you?

Mr. WOLF. Sure.

Senator WIRTH. While we are just right here, who is the person we ought to be talking to? Should we talk to you, Mr. Wolf?

Mr. WOLF. Bob Gramling and myself.

Senator WIRTH. Great. Can you talk to Mr. Harris, who works for Senator Riegle, who is going to be the new chairman of the Banking Committee and is on the Budget Committee? It seems to me that is a good way of doing it.

Why don't we see if we can flush that out and let us take a look at this. If there is nothing there, that is great, Mr. Barclay. If there is, let us find out because we have got a lot of money coming through this pipeline.

Let me stop at that. I would ask if any of you have any closing words for the good of the order that you would like to get into the record or statements you might like to make?

[No response.]

Senator WIRTH. If not, we greatly appreciate your being here. Thank you very much. And we will look forward to working with you, Mr. Wolf, and we thank the rest of you for being here. We greatly appreciate your help. Thank you, Mr. Barclay.

[Whereupon, at 2 p.m., the committee adjourned, subject to the call of the Chair.]

WRITTEN QUESTIONS FROM SENATOR CHILES TO MR. WALL AND THE RESPONSES

Question 1:

Explain how FSLIC currently measures the extent of the immediate crisis. Specifically, explain fully the process by which insolvency is determined, how FSLIC places institutions on their caseload, and how institutions exit off FSLIC's caseload. In addition, describe the caseload and the number of RAP insolvent institutions as of 12/31/88, as of 9/30/88, and the detail behind the net change. Finally, explain FSLIC's projections for net and gross change in these numbers.

Answer:

In estimating the future costs to FSLIC of resolving insolvencies, FSLIC has sought to observe accounting disciplines that govern such determinations. Accordingly, during the period from November 1987 to May 1988 the FSLIC in cooperation with GAO, other Bank Board offices, and Districts Bank supervisory personnel developed a methodology for estimating the potential cost of resolution for all GAAP insolvent institutions. The initial estimates of our costs were developed for our audited financial statements based upon third-quarter data updated through 12/31/87. The numbers were based on current accounting theory as it relates to estimable and probable losses. At that time FSLIC did not have an adequate current experience base to use for other types of analyses. This was due to the extended period during 1986 and 1987 when FSLIC lacked resources to engage in significant case resolutions.

The December 31, 1987 allowance for loss of $17.4 billion as reported on FSLIC's financial statement represents, in part, actual bid prices that FSLIC had for institutions in its caseload. If a bid price did not exist for an institution in the caseload, FSLIC used AED or District Bank costing of estimable and probable losses. Additionally, an estimate was included for institutions in the Southwest Plan that were not a part of the FSLIC caseload as of 12/31/87. As stated in a footnote to the audited statement, "the $17.4 billion allowance for loss on unresolved cases only includes future assistance that is probable and can be reasonably estimated and is not a projection of the cost of resolving all future problems in the savings and loan industry which present projections indicate could amount to $22.7 billion or more." The additional $5.3 billion added to the on-balance sheet projection of $17.4 billion represented the negative tangible net worth of all other GAAP insolvent institutions that were not accounted for either in the FSLIC caseload or in the estimate for institutions in the Southwest Plan. The $5.3 billion was used to estimate the cost to FSLIC for those institutions due to: A) the lack of definitive historic data to project future costs, B) the fact that experience shows that not all GAAP insolvents will require FSLIC assistance, and C) uncertainty in regards to future asset values in the Southwest Plan which could materially effect the amount of required future assistance. GAO's review of this additional figure resulted in its concluding that a higher figure should be used to reflect the contingency for other GAAP insolvent institutions.

At mid-year the FSLIC issued detailed cash flow projections with estimates of future resources and case resolution costs over a 10-year period. This was the most detailed, comprehensive set of numbers that the FSLIC had ever provided to the Congress and the public. During the preparation of the cash flows we were able to analyze actual resolution costs on Southwest cases and compare them to our previous year-end estimates. Experience showed a continuation of asset writedowns in the Southwest and a need to revise our numbers. Based on our experience, we included an additional $8.2 billion in costs for the Southwest which revised our total numbers upward to a cost of $30.9 billion. Experience factors in other parts of the country did not indicate a need to revise our other estimates.

As of the end of the third quarter the FSLIC is once again updating our estimate to reflect the cost of resolutions in the first nine months of this year. The experience factors generated by these resolutions are also being used to project future costs on unresolved cases.

Our revised estimate was derived by identifying all unresolved institutions in FSLIC's caseload as of October 1, 1988 plus all other thrifts that are not currently in FSLIC's caseload but were reported as insolvent under Generally Accepted Accounting Principles (GAAP) on June 30, 1988.

The above analysis yielded an estimated 419 unresolved institutions that may require FSLIC financial assistance in the future. Sixty-six of these institutions have specific bid costings completed by FSLIC's Analysis and Evaluation

Division (AED). Where such bid costings are available, they were used as the estimated cost of resolution. FCA/American was separately costed at a $2 billion net present value. All other insolvent institutions that have not been bid costed (352 thrifts) were costed at their negative tangible net worth as reported on June 30, 1988. This methodology is basically the same as that used by Mr. Frederick Wolf of GAO in his recent testimony.

Using the experience factors mentioned above, we have developed a range of costs for the resolution of future FSLIC cases. The range is $24.9 to $29.9 billion. To the above must be added the estimated $20 billion in FSLIC notes and guarantees under assistance agreements of previously resolved cases that must be paid over the next 10 years. This yields a revised present value estimate ranging between $45 and $50 billion.

Although we now have a greater base of experience, it is important to realize that these numbers are truly estimates subject to still further change. As is and has been the case for all such estimates, the ultimate cost of resolution could be either greater or less, depending on future asset values in the Southwest and the future level of interest rates.

Institutions exit FSLIC's caseload as a result of formal Bank Board action to provide over time a permanent solution through a merger, acquisition or liquidation of the failed institution.

FSLIC's caseload as of 9/30/88 consist of 238 RAP-insolvent institutions for which 80 are earmarked for resolution under the Southwest Plan. Additional resolution projections will be provided as they become available.

Question 2:

Explain FSLIC's definition of the immediate crisis. What constitutes a resolution of a case. Discuss how many institutions beyond the current caseload and RAP insolvent list does FSLIC expect will need to be resolved. What are the resources which would be needed to resolve the immediate problem.

Answer:

As noted in Question 1 regarding the discussion of methodology, the Bank Board has updated the costs of resolving the remaining insolvent or near-insolvent institutions. The updated figures are based on recent historical experience and are derived from a data base previously unavailable.

The current information is now based on resolutions involving one hundred fifty institutions covering the twelve month period ending September 30, 1988.

This process is highly susceptible to change (as, indeed, are the estimates for costs of already-resolved cases as well) based principally on the following factors:

- The future course of the Texas economy and any cylicality in real estate values that may be implied from any recovery in that economy. This factor is exceedingly important because of the conservative costing assumptions which are made concerning assets that are subsidized in the course of a FSLIC assistance package.
- The future path of interest rates.
- The future pattern of the cost of funds, including the so-called "Texas Premium."
- The extent to which we can restore or resolve marginally GAAP-insolvent thrifts without the use of FSLIC funds, and/or the extent to which we can head off new insolvencies.
- The extent to which we can otherwise improve our case processing procedures.

In spite of these revised projections, however, the FSLIC has adequate cash funding at the present time. In fact, the cash position of the FSLIC is sufficiently strong at the present time to discharge its current responsibilities, and those anticipated over the next several months. We have, over the past several months, been able to negotiate some of the most intricate and comprehensive case resolutions ever involved in this, and possibly any other, federal agency. We see no interruption in this demanding schedule over the next several months. We are carrying on this program in the context of managing a tight cash balance position. The need for this careful management stems from the fact that FSLIC is, on the margin, a net borrower, (via FICO) and operates with a negative spread in respect to its cash balances.

As regards additional institutions that may require assistance, the range of cost estimates allows for some upward adjustment for potential future insolvencies.

Question 3:

Discuss recent proposals made by Mr. Wall in the press for resolving the immediate situation. Discuss any additional options which have been developed.

Answer:

Numerous plans have been advanced to provide resources for financing the resolution of insolvent thrifts and to decrease aggregate resolution costs. Many of the alternatives discussed require Congressional authorization. Without prioritizing or evaluating the viability of each plan, the following list provides a range of funding possibilities that have been publicly discussed. This list is by no means considered exhaustive.

- Raise insurance premiums over time so that during periods of heavy losses to the federal deposit insurance funds there will be adequate funds to resolve troubled institutiuons. Alternatively, continue the special asessment on only thrift institutions.

- Pay interest on reserves held on deposit with the Federal Reserve. Currently institutions must maintain balances with the Federal Reserve that do not yield interest. To the extent the Federal Reserve paid interest, such interest could be made available to the FSLIC with no net effect on the institutions involved.

- Require insured institutions to deposit 1 percent of withdrawable deposits into FSLIC. The Bank Board currently has authority to require such a deposit. A similar approach was adopted in resolving the credit union crisis. Such a plan could be counterproductive if it it were to drive additional firms into insolvency.

- Draw on the resources of the FDIC. The FDIC currently has reserves in excess of $15 billion. Either an outright allocation of these resources or a loan of these resources could provide interim cash.

- Expand the recapitalization borrowing authority. The original recapitalization plan included an additional $5 billion. To the extent the industry can bear the debt service obligations, such expanded borrowing could provide additional resources.

- Borrow funds from the Federal Reserve or the Federal Home Loan Banks. Both of these institutions have extensive resources that could be tapped to provide liquidity should the need arise.

- Establish a mortgage origination fee. Since thrifts have been a primary provider of funds for home mortgates, and increasingly commercial mortgages an origination fee on mortgages could provide additional revenues. To some extent, such an approach would impose the burden on those who have benefited from the existence of the thrift industry.

Question 4:

Discuss the role and responsibilities of states in any potential bailout plan?

Answer:

Some states have granted thrifts they charter broader asset powers than those available to federally chartered institutions. States could require that such activities be conducted in a subsidiary.

Private insurers often use special rate assessments for areas that are characterized by high risk. States could conceivably create special "reserve funds," based on fees or charges on state-chartered thrifts. These funds could be used to supplement FSLIC reserves. Alternatively, states could pledge their full faith and credit authority behind a state-sponsored co-insurance program. This would give states increased incentive to monitor the risks involved in investments allowed under state law or regulation.

An alternative to state participation in the insurance of state-chartered institutions is to allow the FSLIC to charge insurance premiums based on differences in thrift operations that result from differences in state laws. In addition to allowing FSLIC premiums to reflect the risks inherent in different activities, differentials could be based on branching limitations or the degree of supervisory monitoring used by the states.

Question #5:

Discuss the role and responsibilities of the industry in any potential bailout plan.

Answer:

There are several ways in which the thrift industry can participate in a plan to resolve the FSLIC problem. They would involve higher insurance assessments or one-time cash contributions.

In order to evaluate the issue of whether or not the thrift industry can pay higher insurance assessments, it is important to review the process by which assessment levels have been established in the past. The evolution of the system of insurance premiums involved circumstances that resulted in premiums being set below levels which might have enabled the insurers to handle all possible contingencies. There are also important issues with regard to the effect of higher premiums on the competitive viability of insured institutions.

At the time that the federal deposit insurance system was created, insurance premiums were set at levels somewhat below the historical loss experience. Section 404(a) of the National Housing Act of 1934, which created the FSLIC, mandated that the deposit insurance reserve should, within 20 years, equal 5 percent of all insured accounts and creditor obligations of all insured institutions. To establish this reserve, FSLIC was empowered to levy an annual insurance premium of 1/4 of one percent (25 basis points) on total deposits and creditor obligations. Section 404(b) provided the option to assess an additional 1/4 of one percent per annum if the insurance fund administrators found that the primary reserve premium was insufficient to cover expenses in any given year.

The Banking Act of 1935 revised the insurance premium and its assessment base following FDIC Chairman Leo Crowley's testimony on February 22, 1935 before the House Committee on Banking and Currency. The historical analysis of the cost of commercial bank failures supplied by Crowley appears to be instrumental in setting insurance premiums not only for the FDIC but for the FSLIC as well. Crowley produced historical data on the losses to depositors resulting from commercial bank failures for the period following the development of the national banking system on July 1, 1864, through June 30, 1934. These data showed that the average loss per total deposit dollar was approximately 1/3 of one percent (32 basis points) for this 70 year period. If, however, the periods of episodic crisis were removed (the three crisis periods of 1873-78, 1892-97, and 1931-34), the average loss per dollar of total deposits declined to 1/8 of the percent (12.5 basis points). However, if insurance liabilities were limited to deposits under $5,000, an average annual premium of 24 basis points would have covered all insurance liabilities for the entire period (Congress later set the amount of deposit insurance coverage at $5,000 per depositor which coincided roughly with the effective premium already in place for both the FDIC and FSLIC).

Effective July 1, 1935, Section 404 of the NHA was amended. Included in the amendment was a provision that the insurance prémium on deposits be lowered to 1/8 of one percent of total deposits. The other provisions of Section 404, those pertaining to the reserve/deposit ratio and the contingent secondary reserve were unchanged. From the outset then, the FSLIC insurance fund was not designed to cover the deposit losses resulting from periods of economic crisis.

In 1950 Congress determined that the FSLIC had too large an insurance reserve and that the present rate of accumulation was unnecessary in the economic environment following WWII. Thus, in 1950, the FSLIC had its annual premium cut to 1/12 of one percent of total deposits. The reduction in the insurance premium charged by the FSLIC was opposed by then Chairman William K. Divers in testimony before the House Committee on Currency and Banking on January 18, 1950. Despite his opposition, Public Law 81-576 reduced the premium charged member institutions.

By contrast, deposit growth in the thrift industry *escalated in the middle 1950s* and, by 1959 the FSLIC's reserve/deposit ratio had fallen to an historic low of 0.63 percent. As a result, on January 1, 1962, Public Law 87-210 authorized the FSLIC to build an emergency secondary reserve. The law provided that the reserve/deposit ratio for total reserves should be maintained between an upper bound of 2.0 percent and a lower bound of 1.6 percent (the historic average reserve/deposit ration for FSLIC was 1.2 percent). In 1970, the reserve/deposit ratio peaked at 2.12 percent.

In 1973, Congress suspended payments to the secondary reserve and reduced the lower bound to 1.25 percent. At that time a mandate was issued to begin repayment of the secondary reserve within ten years, with the caveat that the total reserve/deposit ratio not fall below the 1973 lower bound of 1.25 percent and repayments were suspended. By 1984, the reserve/deposit ratio had fallen to 0.53 percent, and in 1985, an additional special insurance premium of .125 percent was levied on total deposits of the FSLIC member organizations.

While history might suggest that insured institutions should pay higher premiums for deposit insurance, it is critical to consider the effect of higher premiums on the future profitability, and hence viability, of the thrift industry. FSLIC-insured institutions currently pay higher insurance assessments than FDIC-insured institutions. The charge for FSLIC insurance is currently 250 percent of the cost of FDIC insurance (the FSLIC fee is 5/24 of one percent, while the FDIC fee is 2/24 of one percent). Recent evidence suggests that the average return on equity for thrifts has been comparable to that earned by banks, but there appears to be more variability in thrift returns. If thrifts are to compete successfully for capital, it is important for them to offer equivalent risk-adjusted returns on investment. The insurance assessment premium that thrifts pay relative to banks is a major factor in reducing their relative profitability. Any significant increase in this premium might be counter-productive if it reduces the value of thrift charters, which would reduce the prices that potential acquirers would be willing to pay the FSLIC for insolvent institutions.

The thrift industry has played an important part in supporting the FSLIC. The recapitalization plan included in the CEBA is entirely industry financed. In addition, FSLIC-insured institutions have been paying a special insurance assessment since 1985. The capacity of the industry to supply additional funds needs to be closely analyzed and evaluated. Special assessments or other methods to obtain resources from the thrift industry would only help to the extent that they would be paid by healthy thrifts without jeopardizing their condition. If such payments put a significant burden on the thrift industry, they might have the counter-productive result of increasing the FSLIC's obligations. If, however, such a strategy reduces the overall cost of funds, this could enhance thrift profitability.

Question 6:

How long will FSLIC be able to operate without additional assistance from Congress. More specifically, at what point does FSLIC project a need for additional cash resources beyond what is currently available?

Answer:

If, by the term "currently available" one means cash in the bank (U.S. Treasury, in this case) and pre-approved defeased borrowing capacity, then the maximum amount would be approximately $9 billion. This assumes FSLIC notes could be used in anticipation of FICO proceeds for the remaining $7.5 billion cash not yet drawn down.

The limit suggested by the above, however, does not imply recourse to "assistance from Congress." Instead, cash resources need to be related to prospective needs. As our longer term projections indicate, FSLIC will have adequate cash resources to meet its near-term obligations.

See the answer to Question 3 for a further discussion of why it is unlikely that "assistance from Congress" in the form of taxpayer funds will be necessary.

Question 7:

Present outyear projections of when existing and anticipated note issuances mature. Discuss if FSLIC will be able to redeem the principal value of the notes, or will have to roll over the notes.

Answer:

As of September 30, 1988, approximately $12.3 billion in FSLIC notes payableare outstanding. Of this amount $850 million in notes are fully collateralized and payable to District Banks. Of the remaining $11.298 billion in notes, the majority come due in 1998, with the ability to renew at FSLIC's option. A maturity schedule of the FSLIC notes is as follows:

Year	($millions) FSLIC Notes	FHL Bank Notes (1)	NWC Notes (1)
1988	$ 21.8	$ 20.0	$ 0
1989	0	99.0	0
1990	1,423.1	90.0	0
1991	978.7	90.0	0
1992	599.0	90.0	21.0
1993	950.5	90.0	39.1
1994	0	20.0	50.0
1995	38.0	360.0	56.7
1996	0		18.8
1997	260.5		
1998	6,749.0		
later	278.3		
Total	$11,298.0	$850.0	$185.6

(1) FHLBB notes and NWC notes will not require a FSLIC cash outlay becuase they will be offset by contra FSLIC asset accounts.

Currently projections show that over the next ten years FSLIC will have the resources to redeem its principal value of the notes when due.

Question 8:

Compare the relative costs of the various forms of financing case resolutions, including FICO borrowing, promissory notes, assistance agreements (including yield maintenance, yield subsidy, and capital loss agreements), and cash assistance. What is the cost to the federal government and FSLIC of not explicitly guaranteeing FICO bonds and FSLIC notes.

Answer:

The favored mechanism for financing case resolution is the use of promissory notes for the following reasons:

1. The notes bear an interest rate which can be tax effected, thereby lowering the coupon rate on the note when the payee is, or becomes, a taxpayer. The reduction can be in the range of 33%, so that a 9% coupon becomes tax effected at 6% net cost to FSLIC. The FICO bond coupon rates are not tax effected.

2. The weighted average cost of promissory note financing is 8.03%, or 198 basis points less than the 10.01% coupon on FICO borrowing costs.

3. The promissory notes are issued for a term of between 5-10 years; FICO borrowings are long term. Accordingly, the FSLIC note issuance offers an opportunity to determine the extent to which permanent financing will be required in the form of FICO bonds, or more accurately proceeds from FICO bonds to pay off the notes. To the extent, however, that losses giving rise to the use of the promissory notes in the first place are recovered, the use of notes avoids the lock-in of a long-term debt service which is the consequence of using FICO bond offerings directly.

4. Promissory notes may be prepaid at any time, except in unusual circumstances where a fixed maturity is negotiated for with a consequent economic benefit to FSLIC being a part of such negotiation. FICO bonds are not prepayable.

Capital loss coverage and/or yield maintenance are often used in lieu of an immediate marking of all assets to market. For purposes of establishing the scope of such assistance, "covered assets" are identified to be subject of yield maintenance and capital loss coverage. (There is no seperate and distinct "yield subsidy" apart from "yield maintenance"; the question suggests that these might be separate categories.) Incident to the use of assistance agreements with yield maintenance and capital loss coverage is the process whereby reserves (both general and specific) are reversed with the effect that the amount that the promissory note used to reduce negative net worth is reduced. (The yield maintenance payments are, as the coupon rate on the note, "tax effected.") This action is taken with these objectives in mind:

1. Reversing reserves allows FSLIC to determine the effect of cylicality on underlying covered assets.
    a. Recovery of the industry in the early 1980s depended on interest rate cylicality.
    b. Recovery for LDC loans, and others of their genre, also depend on cylicality, (real or hoped for).
    c. The open question in respect of FSLIC covered assets is the extent to which cylicality may affect their values. At present, it appears that the asset values are or have been, at or very near, a "low" for several years.
2. There are several options available to FSLIC via reversals, but not with a "market-value accounting" or "mark-to-market" value:
    a. Reversals allows for loss sharing with acquirers, either as an across the board percentage, or with the acquirers assuming a certain cap of loss exposure. This, however, is often difficult to achieve, but serves nevertheless a useful negotiation element.
    b. Gain sharing with acquirers is more flexible; there is less of a claim by acquirers for an increase in value than would otherwise be the case. Even at present, however, there are certain patterns of negotiation where we allow the acquirers to share in value increases over a certain percentage of the restored book value.
    c. The incentive for acquirers to create a value is greater with a higher book value than would be the case (absence significant sharing) with a different approach.
    d. This approach avoids issues of pure mark-to-market evaluation. The concept of "market-value accounting" assumes that acquirers will tolerate such an approach. The more sophisticated acquirers (and, soon thereafter, acquirers across the board) will not so tolerate a record that has acquirers acquiescing in an accounting mark. Furthermore, a mark-to-market approach would involve extended costs, time delays, and personnel costs.

e. This approach gives FSLIC greater control over asset disposition and timing of taking losses.

f. Acquirers have incentive to manage prudently because there is a tension built-in between selecting the best time for disposition and an attrition in yield subsidies.

As suggested by the foregoing, cash assistance is used sparingly. On the margin our cost of "cash" is at the FICO borrowing rate of approximately 10%. Accordingly, it is our belief that the use of cash should be for only those circumstances where cash payouts are needed, for circumstances in which acquirers are bringing new capital into the system in meaningful amounts, or where payments are made on losses that are irretrievable and, accordingly, would not be aided by any deferral.

Finally, you have asked "What is the cost to the federal government and the FSLIC of not explicitly guaranteeing FICO bonds and FSLIC notes (?)"

With respect to FICO, FICO's capacity to issue bonds would not change, since FICO's zero-coupon bond purchases to secure principal repayment would not be affected. At the margin, however, lower cost for FICO issuances would directly increase the proportion of thrift assessments remaining with FSLIC. Since the spread between the FICO borrowing rate and comparable maturity Treasury securities has averaged approximately 100 basis points, explicit guaranteeing should eliminate this cost.

The major impact of a full faith and credit guarantee of FSLIC obligations would be to enhance the acceptability of FSLIC notes in case resolutions. This potential for increased utilization of notes would have at least three beneficial effects: first, FSLIC notes carrying a lower interest cost than non-guaranteed notes of the same term; second, since FSLIC notes carry an exemption from taxation, the notes would carry a lower rate of interest than taxable FICO debt and, potentially, lower than Treasury debt of the same term; third, since the maturities of notes issued would likely be shorter than the FICO bonds currently being issued, interest expense at issuance is reduced by more efficient borrowing at a lower point on the yield curve.

One study done by the Federal Home Loan Bank of New York which assumes 11 billion dollars of FSLIC notes with a full faith and credit guarantee concludes that extending the federal guarantee to both FICO and FSLIC would save approximately $237.7 million per year, for a five year savings of $1.19 billion.

Question #9

What specific factors have contributed to FSLIC's reestimate of the problem which led to Mr. Wall's recent press statements about the need for additional resources?

Answer

The estimation of the potential resource needs of FSLIC is a dynamic process. As further detailed in our response to Question 1, the primary factor contributing to our reestimation of the resource needs is our ongoing experience with resolving insolvent institutions as well as including the industry loss experience through second quarter of this year.

It should be noted that the Bank Board is not alone in revising its estimates. In fact, most industry analysts have continually revised their estimates as new information becomes available. Such revisions simply reflect our use of the best currently available information.

Question 10:

What are the characteristics of the promissory notes issued by FSLIC?

Answer:

At 9/30/88 the range of interest rates for the FSLIC promissory notes was from 6.57% to 12.5% with the exception of one note at 17.49% which has an offset debenture at 15.9% for a net annual cost of 1.6%. The low is based on the 26-week Treasury Bill rate and the high is a fixed-rate based on negotiated amounts. Variable rates ranged from 6.57% to 10.08% while fixed-rates ranged from 7.00% to 12.5% with the one exception noted above. The majority of the older notes use floating rates based on 26-week T-bill rates plus basis points. However, the newer notes have rates that are based on regional rates (such as Texas or Louisiana cost of funds) believed to approximate alternative funding costs in the area. The floating rates are adjusted each quarter, semiannual or annual period based on note terms. Variations among terms reflects overall market conditions and/or the viability requirements for the acquired institutions. Most notes are prepayable at FSLIC's option and are transferrable, some with and some without FSLIC's consent.

The total cash-basis value of the notes at 9/30/88 is $12.3 billion. In addition, there are approximately $185.6 million in net worth certificate notes and $850.0 million in passthrough FHLB notes. To the extent these notes carry rates that are higher than market rates, the present value of the notes will technically be greater than their cash-basis value. Such differences are reflected in the valuing of assistance agreements.

The annual debt service update for the next ten years will be provided when our end of fiscal year cash-flow projections are completed.

Question 11:

What are the characteristics of the assistance agreements?

Answer:

The Mergers and Acquisition Division ("MAD") markets failed institutions to potential acquirers. The potential acquirers are asked to submit bids identifying the amount and types of assistance required from FSLIC for it to acquire the failed institution. The Analysis and Evaluation Division ("AED") determines the cost of each bid, as well as FSLIC's cost to liquidate the institution. Assuming the bids are less costly than FSLIC would incur by liquidating the failed institution, MAD enters into negotiations with the potential acquirer determined to have submitted the least costly bid.

The initial cost of assistance proposed by the acquirer is determined by AED. This costing is used initially by the Financial Assistance Division (FAD) when establishing projected losses on future obligations of FSLIC under the Assistance Agreement. FAD then evaluates the costing and updates the initial projections quarterly as additional information is obtained regarding the acquired institutions.

If an acquiring institution receives coverage from FSLIC for losses it incurs on the disposition of assets acquired, the FSLIC makes the final decision on the strategy utilized by the institution in disposing of assets. Specific sale decisions may be made by institution managers so long as they follow a business plan, approved by FSLIC, for the respective assets.

The Assistance Agreements are negotiated to include specific covenants the institution must follow for it to receive coverage for losses incurred in the disposition of assets. The Assistance Agreement also prescribes certain reporting requirements the institution must follow, so the FSLIC can monitor and control the acquiring institution's activities in liquidating the assets. For example, the acquiring institution submits current appraisals, business plans, and budgets for significant assets to support the recommended liquidation actions. In addition, the Assistance Agreements sometimes include sharing of losses and gains between the FSLIC and acquiring institution. This gives the institution a financial incentive to minimize losses and maximize gains on the liquidation of the assets.

Depending upon provisions of the agreement, the FSLIC may share in all or a portion of the gains realized upon liquidation of the assets up to the amount of money contributed by FSLIC to resolve the case. FSLIC's share of the resulting gains are credited to FSLIC quarterly through the reporting process prescribed in the Assistance Agreements. Approximately 40% of agreements have gain sharing. All Southwest Plan agreements have this provision.

The FSLIC also receives the benefit of preferred stock and warrants. FSLIC either shares of receives all tax benefits.

Approximately $1.32 billion worth of assets are subject to capital loss coverage on traditional Assistance Agreements outstanding as of September 21, 1988. The "traditional" Assistance Agreements constitute all Assistance Agreements of the FSLIC except for those negotiated as part of the Southwest Plan and the resolution of American Savings. The Southwest Plan agreements provide capital loss coverage on approximately $22.0 billion of assets. The American Savings agreement has covered assets of approximately $21.0 billion. Currently, loss reserves are set at $7.925 billion for these assistance agreements. Annual debt service will be provided once cash flow projections are finalized.

Question #12

How does FSLIC determine whether to sell or liquidate an insolvent institution? How much weight does this analysis give to the net present value, and what assumptions are behind that calculation? What are the most sensitive variables in the sell or liquidate decision?

Answer

Each FSLIC case is analyzed by FSLIC staff in conjunction with the District Banks to determine the most cost effective solution for FSLIC. Generally an institution is a good candidate for acquisition/merger if it has many of the following attributes

- Desirable location, good branch network,
- Significant tax benefits available,
- Large volume of core deposits,
- Lack of complicated assets problems,
- Lack of significant contingent liabilities, claims and litigation,
- Good Management.

Institutions displaying the characteristics below are generally good candidates for liquidation:

- Significant contigent liabilities, claims, loan buyback agreements, loan commitments, letters of credit, and litigation.
- Large volume of problem assets or management intensive assets (e.g., a large number of nonearning participation loans located outside of usual lending area). These loans usually have a high potential for litigation.
- Lack of core deposits. Deposits instead consist of brokered and/or jumbo certificates of deposit or other high cost liabilities.
- Poor branch structure.
- The institution is located in an undesirable area.

The assigned analyst must request a liquidation costing from AED at the time a case is placed on the proposed marketing schedule or when a case is to be recommended for receivership. However, it is imperative that a preliminary cost estimate be prepared and updated periodically.

During preliminary analysis, estimating the potential cost to FSLIC requires a high degree of subjectivity. Each case will possess unique characteristics such that a precise formula cannot be calculated. However, the following factors are considered.

Reported Tangible Net Worth - This is based on data contained in the institution's most recent quarterly and monthly reports. More recent or better information should be used if available.

Unreserved indicated losses - The estimate of additional losses, if any, which would be recorded based on a thorough analysis of the institution's balance sheet.

Operating profit (loss) - The degree and rate of an institutions's losses will undoubtedly necessitate changes in these numbers to reflect an estimate of the probable range of the institution's operating results over the next six months.

Loss on off-balance sheet items - The estimated range of losses, if any, on items not recorded on the balance sheet, such as on commitments, letters of credit, litigation, etc.

Value of off-balance sheet items - This should be the estimate of the value, if any, of items not recorded on the balance sheet, such as the value of servicing rights or mortgage banking subsidiary, pending bonding company claims or other litigation, and known probable recoveries on previously written down assets.

Value of core deposits - The value of the core deposits normally range between 2% and 5% of such deposits, depending on whether such deposits carry above or below market rates of interest, the durability of the accounts, and the quality of the branching system.

Once cases have been deemed as being either a sales or liquidation candidate they are "prioritized" as to the order of disposition.

Several factors come into play when making this decision. The most important factor is the estimated cost. These costs are always measured in present value terms because the timing of the cash flows differ widely between the two alternatives. Another major factor that affects the decision is the probability -- or possibility -- of significant contingent losses. Because contingent losses receive treatment more favorable to FSLIC in a liquidation than in a FSLIC-assisted sale of an institution, this could sway a decision toward liquidation in cases where contingencies exist, but there are insufficient data to estimate the associated costs. Other factors that affect the decision include the amount of capital infused into the industry (due to a FSLIC-assisted sale) and the relative risks and upside possibilities associated with the transactions.

For example, a FSLIC-assisted sale might include considerably more upside possibilities than are included in the FSLIC cost estimate in cases where there are a large amount of net operating loss carryforwards (tax benefits), because the FSLIC would normally receive a share of these benefits. These benefits would be worthless in a liquidation.

The assumptions behind the present value cost estimate are discussed in question 13.

Ironically, the most sensitive variables in the sell or liquidate decision are not those that make up the largest component of the cost of either choice. These variables, such as the amount of negative net worth, the expected capital losses, and market interest rates, normally affect the estimated cost equally for both choices. Some of the variables that are more important have already been discussed (contingencies, capital for the industry, upside possibilities and risk factors). Of those factors that are built into the present value cost estimate, the discount rate is probably the most important factor because the cash flows differ so widely. Other factors that have a significant effect include the timing of the disposition of the assets and future interest rates.

Question #13

Explain in detail the process by which FSLIC develops its estimate of the total amount of potential insolvency losses. From what data are these estimates derived? What economic and technical assumptions are employed? Is a data base maintained and updated over time? How is this information presented at the various levels of review? What steps are taken to verify and increase the quality of projections? How frequently is this estimate revised?

Answer

The estimated FSLIC losses resulting from the resolution of an insolvent thrift institution is prepared by the Analysis and Evaluation Division (AED) of FSLIC. This division bases its estimate on the results generated from a computer-based receivership-simulation model. This model requires the input of over 300 variables. Initial asset and liability information for the thrift being analyzed are derived from the quarterly reports submitted by the institution. Current rates on various assets and liabilities as well as current operating expenses are likewise derived from these reports.

In addition to these balance sheet and income statement items, the simulation model requires a number of economic assumptions. These include the prepayment rate on assets, the default and loss rates on each asset class, disposition schedules, future expected interest rates, and the discount rate for finding the present value of the cash flows. Assumptions used in modeling expected losses are derived from historical experience, thrift reports, and discussions with the examination personnel from the District Banks. If the institution has been operated under the Management Consignment Program, additional information is obtained from the managers. For estimation purposes, interest rates are assumed to increase moderately over the receivership life. Prepayment assumptions and disposition schedules are derived from historical data. The discount rate used in present value analysis is the borrowing rate on debt obligations of the Financing Corporation (FICO). Operating expenses for the receivership are based on historical experience.

Currently, a data base is maintained on the status of all resolved FSLIC cases. Data maintained includes the total estimated liquidation cost and the total estimated cost of resolution. For those institutions that are liquidated, these numbers will be identical.

Expected loss estimates are prepared by an analyst from AED. The results of this analysis are presented to the regional manager. The regional manager reviews with the analyst the assumptions and the results of the analysis. If the institution involved merits further review, the division director also reviews the analysis. Following these reviews, a summary memorandum is prepared by the analyst and manager for the Director of FSLIC. This memorandum identifies the key assumptions used in the analysis and provides the results of the analysis. This costing memorandum is also provided to the case manager from the Mergers and Acquisitions Division (MAD). Finally, the costing memorandum is provided to the Bank Board as part of the overall package related to the institution under consideration.

Cost estimates are revised as new information becomes available. For many cases, this is quarterly, when new reports are filed by the institution For other cases, a recently completed examination may provide the new information, or continuing discussions with the supervisory or examination personnel may provide new input.

Question 14:

What was FSLIC's projection of the cost on a net present value and on a cash basis) of potential insolvencies at the time of the enactment of CEBA? What were FSLIC's cash flow projections at that time to completely resolve the thrift crisis? What mix of assistance was projected (i.e., what specific amounts of each type of credit instrument [promissory notes including ICC's and NWC's, yield maintenance and subsidy agreements, and capital loss agreements] and the various borrowing authorities available to FSLIC) to implement this plan at the time of the bailout?

Answer:

Prior to enactment of CEBA, FSLIC did not perform cash flow analyses of the type performed more recently which seek to compare available resources to the potential cost of resolving all cases. However, in April 1986, a Bank Board task force working on the FSLIC recapitalization issue prepared a 28 year cash flow (FY 1986 through FY 2013, inclusive). This analysis projected resources available to resolve as much as $42 billion of cases on a cash basis over the 28 years while at the same time, have sufficient insurance premium income to fund the debt service on the FICO bonds. At the time, the special insurance assessment was only assumed to continue through FY 1991. The $42 billion number does not appear to have been intended at that time to be an estimate of the size of industry insolvency requiring FSLIC solution but rather, a measurement of resources that could be applied to future problem cases. Indeed, in May 1987, GAO completed its audit of FSLIC's December 31, 1986 estimated loss for unresolved problem cases. The present value cost estimate agreed upon between the Bank Board and GAO at that time was $23.5 billion. In the following year after more case resolutions the GAO's footnote number was $22.7 billion for the then remaining cases.

In the April 1986 analysis it was assumed that 82% of future cases would be resolved through mergers and acquisitions, and that 18% would require liquidations.

It is not evident what specific forms of assistance (i.e. notes, cash for yield subsidies and capital loss coverage, etc.) were assumed, if any, for the pre-CEBA cash flows. It was not, however, assumed that FSLIC would need to implement any of its various borrowing authorities beyond that specifically contemplated in the FICO recapitalization.

Question 15:

When will audits, called for as part of the assistance agreements, produce information for revised estimates of the cost of the agreements to FSLIC?

Answer:

The audits called for in the assistance agreements do not produce information for revised estimates of the cost of the agreements to FSLIC. Instead adjustments are made to FSLIC corporate books to reflect any additional expected losses or gains as they are identified. The first adjustments are made after the first six months. They are thereafter adjusted quarterly and related back to the initial costings. An initial audit required by the assistance agreement generally provides for an adjustment to the initial contribution (note or cash). This adjustment is made within 30 days of receipt of the final audit report. Compliance audits are performed periodically and they are used to adjust claims under the assistance agreements. Accordingly, revised estimates of the cost of agreements to FSLIC are adjusted quarterly by case managers in the Financial Assistance Division (FAD) as they become more familiar with the specifics of each case.

ADDITIONAL QUESTIONS FROM SENATOR CHILES TO MR. WALL AND THE RESPONSES

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STEVEN D. SYMMS, IDAHO
CHARLES E. GRASSLEY, IOWA
ROBERT W. KASTEN, JR., WISCONSIN
DAN QUAYLE, INDIANA
JOHN C. DANFORTH, MISSOURI
DON NICKLES, OKLAHOMA
WARREN B. RUDMAN, NEW HAMPSHIRE

RICHARD N. BRANDON, STAFF DIRECTOR
G. WILLIAM HOAGLAND, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510-6100

November 16, 1988

The Honorable M. Danny Wall
Chairman
Federal Home Loan Bank Board
1700 G. Street
Washington, D.C. 20552

Dear Mr. Wall:

This letter is a follow-up to the October 5, 1988 Senate Budget Committee hearing on the financial status of Federal Savings and Loan Insurance Corporation insurance fund. You will recall that at the close of that hearing, I indicated that the Committee would submit further questions to you for your written responses.

The attached document contains our additional inquiries. Table formats for all requested data have been provided. I ask that you use those formats both to limit uncertainties regarding the specific information being asked for and to enable the Committee to more easily integrate your responses into other tables currently being developed by my staff. The enclosed formats have been carefully designed to display data in a manner that will be most useful in Congressional deliberations on the FSLIC issue. Therefore, I cannot overemphasize the Committee's desire for you to provide the requested information in a manner consistent with the organization of the tables provided. It will avoid our having to lose time resubmitting requests to you for the same information.

Just prior to your appearance before the Budget Committee, you were very cooperative in answering numerous complex and technical questions in a relatively short period of time. I was very pleased by your forthright attempt to fully apprise the Committee of the financial condition of FSLIC's insurance fund at that time. Unfortunately, as I mentioned during the hearing, many questions were answered by you in a manner that did not fully satisfy all of the Committee's concerns. For that reason, the Committee has taken the time to prepare detailed tables to minimize misunderstandings concerning specific data being requested.

I am aware that you have a difficult job on your hands. And I can further understand how frustrating it can be to be criticized for not providing certain information to various Congressional offices and members when the request for information is vague in your view. I trust that the enclosed questions are quite clear and I look forward to your responses in a timely fashion.

Inasmuch as FSLIC's financial position is likely to be one of the most prominent budget issues facing Congress and the new Administration next year, it is imperative that the enclosed questions be responded to as soon as possible. Upon receipt of this letter, I ask that you have your aides contact Jim Carr of my staff at 224-0852 to discuss the turnaround time you expect will be required to fully respond to the Committee's inquiries, as well as to talk about any technical limitations or concerns you might have respecting this request.

Also, to avoid any confusion with regard to the precise data being asked for on each of the tables provided, please have your technical staff contact Steve Hornburg at 224-0532 prior to completing those documents. Having your aides confer with the Committee's staff prior to completion of the tables will enable us to assure that your understanding of the Committee's request corresponds with the Committee's intent.

Mr. Wall, although the enclosed tables admittedly call for an enormous about of data to be submitted to the Committee, it is information that should be readily available from the Bank Board. This request simply asks for backup data to support aggregate figures you have presented in statements to Congress and to the press concerning the Bank Board's activities.

Thank you for your prompt attention to this matter. This information will be extremely useful in aiding Congress to understand more fully the extent of the financial crisis being experienced by the FSLIC insurance fund and the Bank Board's activities to resolve that financial predicament.

Sincerely,

Lawton Chiles

Lawton Chiles
Chairman

TABLE I: FSLIC OUTLAYS

Please respond to the following questions in table format. These tables seek information on outlays, in a given fiscal year, of the FSLIC. In order to enable us to integrate this data into existing tables the Committee is developing, please use the formats we have provided.

Table I(a) should reflect actual and projected data as of September 30, 1987. Table I(b) should reflect the actual and projected data which formed the basis for Chairman Wall's testimony before the Senate Budget Committee on October 5. (NOTE: This data is assumed to be the end-of-year data for fiscal year 1988; if this is an incorrect assumption, please provide a narrative explanation describing in detail the data base used for the Chairman's testimony). Table I(c) should reflect the most current estimates in use by FSLIC. Please provide an explanation for any differences between the September 30, 1987 and September 30, 1988 tables, and between the September 30, 1988 and current estimates tables.

For each row entry under the "Expenditures" heading, please provide outlay information in the format provided below. This display breaks out each individual row entry's fiscal year outlays by the fiscal year in which the commitment which led to the outlay was entered. It is assumed that this information is available as essential data for FSLIC's cash flow planning. In any event, this display is crucial for properly estimating and accounting for FSLIC expenditures in the federal budget.

EXAMPLE: ROW ENTRY - Promissory Notes, Principal, Mergers

	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87								
FY87								
FY88								
FY89								
FY90								
FY91								
FY92								
FY93								
FY94								

EXPENDITURES

Promissory Notes

1. Give figures for promissory note principal issued in Fiscal Years 1987 and 1988, and promissory note principal projected to be issued for Fiscal Years 1989-1994. In keeping with current federal budget scorekeeping practice, display all note principal issued as an outlay in the fiscal year issued. Include detailed subtotals of use in mergers, acquisitions, deposit transfers, and depositor payouts.

2. Give figures for actual interest paid in Fiscal Years 1987 and 1988 on all outstanding promissory notes, and projected interest payments on outstanding issues for Fiscal Years 1989-1994. Include detailed subtotals of use in mergers,

acquisitions, deposit transfers, and depositor payouts.

Assistance Agreements

NOTE: For each fiscal year entry of new yield maintenance and capital loss agreements, please provide a narrative statement which describes how much of a common asset base is covered by these two types of assistance agreements, the dollar amount of each type of agreement covering the common asset base, the assumed rate(s) of interest for the agreements, the rate(s) at which asset performance is projected to improve and/or deteriorate, and the basis for estimating capital loss.

1. Give actual figures for annual payments in Fiscal Years 1987 and 1988, and projected payments in Fiscal Years 1989-1994, from all newly issued and outstanding yield maintenance assistance agreements in each fiscal year. Include detailed subtotals of use in mergers, acquisitions, deposit transfers, and depositor payouts. Also include, for purposes of display (i.e., entry is nonadditive in table totals because figure is already included in another entry), total dollar savings projected from gain sharing and any other savings features associated with yield maintenance agreements, in the fiscal year in which these savings occur.

2. Give actual figures for annual payments in Fiscal Years 1987 and 1988, and projected payments in Fiscal Years 1989-1994, from all newly issued and outstanding capital loss coverage assistance agreements in each fiscal year. Include detailed subtotals of use in mergers, acquisitions, deposit transfers, and depositor payouts. Also include, for purposes of display (i.e., entry is nonadditive in table totals because figure is already included in another entry), total dollar savings projected from gain sharing and any other savings features associated with loss coverage agreements, in the fiscal year in which these savings occur.

3. Give actual figures for annual payments in Fiscal Years 1987 and 1988, and projected payments in Fiscal Years 1989-1994, from all newly issued and outstanding indemnification agreements. Include detailed subtotals of use in mergers, acquisitions, deposit transfers, and depositor payouts.

Upfront Cash Assistance

1. Give totals for upfront FSLIC cash assistance in Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994. Include detailed subtotals of use in mergers, acquisitions, deposit transfers, and depositor payouts.

Miscellaneous Costs

1. Give total administrative costs for Fiscal Years 1987 and 1988 and projected costs for Fiscal Years 1989-1994.

2. Give total expenditures for any other purpose not previously specified. Include total annual costs in Fiscal Years 1987 and 1988 and for Fiscal Years 1989-1994. Please state each expenditure separately, including the purpose and statutory authority for the expenditure. If appropriate, include detailed subtotals of expenditures in mergers, acquisitions, deposit transfers, and depositor payouts.

FINANCING

1. Give total amounts generated through premium payments for Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994. Include as separate entries both regular and special assessments. Assessment amounts which do not pass through FSLIC, but go directly to FICO, should not be reflected in this table.

2. Give total amounts realized from Section 404(i) "Special Deposits" in Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994.

3. Give total amounts realized from FICO proceeds in Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994.

4. Give total amounts realized from liquidations of receiverships in Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994.

5. Give total amounts realized from tax rebates in Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994.

6. Give total proceeds realized from borrowing in Fiscal Years 1987 and 1988 and projected borrowing proceeds for Fiscal Years 1989-1994. Please state separately each source from which the capital was borrowed. Include the amount borrowed from each source as well as the statutory authority for that borrowing.

7. Give total amount realized from any other financing source not previously specifically indicated. Include totals for Fiscal Years 1987 and 1988 and projected totals for Fiscal Years 1989-1994. Please state separately each financing source. Include the amount from each source as well as the statutory authority for the financing.

TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

	EXPENDITURES							
	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY NOTES								
Principal								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Subtotal								
Interest								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Subtotal								
Total								
ASSISTANCE AGREEMENTS								
Yield Maintence								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Capital Loss								
Mergers								
Acquisitions								
Deposit Transfers (								
Depositor Payouts								
Total								
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Indemnification Agreements								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
UPFRONT CASH ASSISTANCE								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
MISCELLANEOUS COSTS								
Administration Costs								
Other								
Total								
TOTAL EXPENDITURES								

	FINANCING							
	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
Regular Assessments								
Special Assessments								
Section 404(i) "Special Deposits"								
FICO Proceeds								
Liquidations of Receiverships								
Tax Rebates								
Borrowing								
Interest Income								
Other								
Total								
TOTAL FINANCING								
GRAND TOTAL								

TABLE I(b): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1988, IN CASH-BASIS VALUE)

EXPENDITURES

	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY NOTES								
Principal								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Subtotal								
Interest								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Subtotal								
Total								
ASSISTANCE AGREEMENTS								
Yield Maintance								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Capital Loss								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Indemnification Agreements								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
UPFRONT CASH ASSISTANCE								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
MISCELLANEOUS COSTS								
Administration Costs								
Other								
Total								
TOTAL EXPENDITURES								

FINANCING

	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
Regular Assessments								
Special Assessments								
Section 404(i) "Special Deposits"								
FICO Proceeds								
Liquidations of Receiverships								
Tax Rebates								
Borrowing								
Interest Income								
Other								
Total								
TOTAL FINANCING								
GRAND TOTAL								

TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

	EXPENDITURES							
	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY NOTES								
Principal								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Subtotal								
Interest								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Subtotal								
Total								
ASSISTANCE AGREEMENTS								
Yield Maintence								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Capital Loss								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Indemnification Agreements								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
UPFRONT CASH ASSISTANCE								
Mergers								
Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total								
MISCELLANEOUS COSTS								
Administration Costs								
Other								
Total								
TOTAL EXPENDITURES								

	FINANCING							
	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
Regular Assessments								
Special Assessments								
Section 404(i) "Special Deposits"								
FICO Proceeds								
Liquidations of Receiverships								
Tax Rebates								
Borrowing								
Interest Income								
Other								
Total								
TOTAL FINANCING								
GRAND TOTAL								

TABLE II: FSLIC COMMITMENTS

Please respond to the following questions in table format. These tables seek information on the total value of commitments entered into and retired by FSLIC each fiscal year, and the corresponding change at the end-of-year to FSLIC's total outstanding commitments. In order to enable us to integrate this data into existing tables the Committee is developing, please use the formats we have provided.

Tables II(a) and II(b) should reflect actual and projected data as of September 30, 1987. Tables II(c) and II(d) should reflect the actual and projected data which formed the basis for Chairman Wall's testimony before the Senate Budget Committee on October 5. (NOTE: This data is assumed to be the end-of-year data for fiscal year 1988; if this is an incorrect assumption, please provide a narrative explanation describing in detail the data base used for the Chairman's testimony). Tables II(e) and II(f) should reflect the most current estimates in use by FSLIC. Each set of data should be displayed on both a net present value and a cash basis.

Please provide an explanation for any differences between the September 30, 1987 and September 30, 1988 tables, and between the September 30, 1988 and current estimates tables.

Any changes in value of any previously entered, retired, or outstanding commitments which are due to any reestimate of the value should be explicitly displayed under "Net Estimating Changes". It is assumed that the major causes for any such changes are floating interest rates associated with many of these assistance agreements and asset base revaluations. Any such changes, and the reason for such changes, should be fully described in narrative form accompanying the table, covering all the components which contributed to the net estimating change figure. The discussion should describe, at minimum, how often any such reestimate takes place, the rationale for such reevaluations or reestimates and their timing, the indicators or factors and the changes which cause the reestimate in value, the original factors behind the estimates of the value of the commitments, and any other pertinent information which contributes to an exact understanding of the data and data changes.

Detailed discussion of assumptions about these indicators and how they impact on the cost of resolutions is obviously central to understanding the scope of the problem. As such, it is assumed that FSLIC has this information readily available as part of its normal commitment and cash flow planning.

Promissory Notes

1. Give figure for promissory note principal outstanding from commitments made prior to Fiscal Year 1987. Then, give figures for actual or projected note principal issuances by fiscal year for Fiscal Years 1987-1994, and any retirement of outstanding note principal in the same fashion. These figures should then be summed to produce the total principal outstanding in each fiscal year. Finally, the annual sum of

the above figures should be added to or subtracted from the previous end-of-year outstanding principal balance. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts. (NOTE: Any rollover or exchange of notes should be reflected as both retirement of outstanding principal and new issuance of note principal.)

2. Give figure for total outstanding interest payment commitments entered into prior to Fiscal Year 1987, reflecting the total cost over the expected life of all outstanding promissory note interest obligations. Then, in the fiscal year in which new commitments are made, give figures for the total cost (over the expected life of the notes) of interest commitments on associated promissory notes. Include and explain, as a separate display entry which is nonadditive, estimates of the value of any discount (such as explicit or implicit recognition of tax benefits) reflected in interest rates on notes. Then, give figures for annual payments on outstanding interest obligations. Finally, the annual sum of the above figures should be added to or subtracted from the previous end-of-year outstanding interest commitment. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts.

3. Give figure for total outstanding note commitments (principal and interest) entered into prior to Fiscal Year 1987, reflecting the total cost (i.e., the cost over the expected life of agreements) of all outstanding obligations. The annual totals for outstanding commitments listed in Numbers 1 and 2 should be added to or subtracted from the previous year's total outstanding note commitment. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts.

Assistance Agreements

NOTE: For each fiscal year entry of new yield maintenance and capital loss agreements, please provide a narrative statement which describes how much of a common asset base is covered by these two types of assistance agreements, the dollar amount of each type of agreement covering the common asset base, the assumed rate(s) of interest for the agreements, the rate(s) at which asset performance is projected to improve and/or deteriorate, and the basis for estimating capital loss.

1. Give figure for total outstanding yield maintenance agreement commitments entered into prior to Fiscal Year 1987, reflecting the total cost over the expected life of all outstanding obligations. Give the total cost (i.e., the cost over the expected life of the agreements) of agreements entered into in each subsequent fiscal year in the fiscal

year in which the agreement is entered. Also include, as a display entry which is nonadditive, specific dollar savings on future payments projected from gain sharing and any other savings features associated with yield maintenance agreements in the year in which the agreement is entered. Then, give figures for annual payments by fiscal year on these commitments. These payments should then be netted from new annual commitments, and added to or subtracted from the previous end-of-year total outstanding yield maintenance commitment. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts.

2. Give figures for total outstanding capital loss agreement commitments entered into prior to Fiscal Year 1987, reflecting the total cost over the expected life of all outstanding obligations. Give the total cost (i.e., the cost over the expected life of the agreements) of agreements entered into in each subsequent fiscal year in the fiscal year in which the agreement is entered. Also include, as a display entry which is nonadditive, specific dollar savings on future payments projected from gain sharing and any other savings features associated with capital loss agreements in the year in which the agreement is entered. Then, give figures for annual payments by fiscal year on these commitments. These payments should then be netted from new annual commitments, and added to or subtracted from the previous end-of-year total outstanding capital loss commitment. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts.

3. Give figures for total outstanding indemnification agreement commitments entered into prior to Fiscal Year 1987, reflecting the total cost over the expected life of all outstanding obligations. Give the total cost (i.e., the cost over the expected life of the agreements), in the fiscal year the commitment is entered, of any new commitments in Fiscal Years 1987-1994. Then, give figures for annual payments by fiscal year on these commitments. These payments should then be netted from new annual commitments, and added to or subtracted from the previous end-of-year total outstanding indemnification agreement commitments. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts.

Other Commitments

1. Give total commitments for any other purpose not previously specifically indicated. Include total commitments outstanding (if any) prior to Fiscal Year 1987. Give the life cost, in the fiscal year in which the commitment is entered, of any new commitments entered into by fiscal year in Fiscal Years 1987-1994. Then, give expenditures which satisfy those commitments in the fiscal year in which they occur. Net out these expenditures against the value of new commit-

ments incurred in each fiscal year, and add or subtract the annual activity from the previous end-of-year total outstanding commitment. Please state each commitment activity separately and include the statutory authority for the commitment. Information should be reported in subcategories by use in mergers, acquisitions, deposit transfers, and depositor payouts.

TABLE II(a): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN NET PRESENT VALUE)

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
				PROMISSORY AND OTHER NOTES					
PRINCIPAL									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Retired									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for Year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
INTEREST									
New commitments									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OUTSTANDING NOTE COMMITMENTS									
				ASSISTANCE AGREEMENTS					
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									

CAPITAL LOSS AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----
(Gain sharing) ---- ( ) ( ) ( ) ( ) ( ) ( ) ( ) ( )

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

INDEMNIFICATION AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OUTSTANDING ASSISTANCE COMMITMENTS

OTHER COMMITMENTS

OTHER COMMITMENTS
Total commitments
New commitments ----
Paid out ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OTHER COMMITMENTS

TOTAL END-OF-YEAR COMMITMENTS

TOTAL -- ALL COMMITMENTS (EOY)

TABLE II(b): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN CASH BASIS VALUE)

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY AND OTHER NOTES									
PRINCIPAL									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Retired									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for Year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
INTEREST									
New commitments									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OUTSTANDING NOTE COMMITMENTS									
ASSISTANCE AGREEMENTS									
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									

CAPITAL LOSS AGREEMENTS

Newly issued
  Mergers ----
  Acquisitions ----
  Deposit Transfers ----
  Depositor Payouts ----
  (Gain sharing) ---- ( ) ( ) ( ) ( ) ( ) ( ) ( ) ( )

Paid out
  Mergers ----
  Acquisitions ----
  Deposit Transfers ----
  Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

INDEMNIFICATION AGREEMENTS

Newly issued
  Mergers ----
  Acquisitions ----
  Deposit Transfers ----
  Depositor Payouts ----

Paid out
  Mergers ----
  Acquisitions ----
  Deposit Transfers ----
  Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OUTSTANDING ASSISTANCE COMMITMENTS

OTHER COMMITMENTS

OTHER COMMITMENTS
Total commitments
  New commitments ----
  Paid out ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OTHER COMMITMENTS

TOTAL END-OF-YEAR COMMITMENTS

TOTAL -- ALL COMMITMENTS (EOY)

TABLE II(c): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1988, IN NET PRESENT VALUE)

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
					PROMISSORY AND OTHER NOTES				
PRINCIPAL									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Retired									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for Year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
INTEREST									
New commitments									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OUTSTANDING NOTE COMMITMENTS									
					ASSISTANCE AGREEMENTS				
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									

CAPITAL LOSS AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----
(Gain sharing) ---- ( ) ( ) ( ) ( ) ( ) ( ) ( ) ( )

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

INDEMNIFICATION AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OUTSTANDING ASSISTANCE COMMITMENTS

OTHER COMMITMENTS

OTHER COMMITMENTS
Total commitments
New commitments ----
Paid out ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OTHER COMMITMENTS

TOTAL END-OF-YEAR COMMITMENTS

TOTAL -- ALL COMMITMENTS (EOY)

TABLE II(d): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1988, IN CASH BASIS VALUE)

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
					PROMISSORY AND OTHER NOTES				
PRINCIPAL									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Retired									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for Year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
INTEREST									
New commitments									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OUTSTANDING NOTE COMMITMENTS									
					ASSISTANCE AGREEMENTS				
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									

CAPITAL LOSS AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----
(Gain sharing) ---- ( ) ( ) ( ) ( ) ( ) ( ) ( ) ( )

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

INDEMNIFICATION AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OUTSTANDING ASSISTANCE COMMITMENTS

OTHER COMMITMENTS

OTHER COMMITMENTS
Total commitments
New commitments ----
Paid out ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OTHER COMMITMENTS

TOTAL END-OF-YEAR COMMITMENTS

TOTAL -- ALL COMMITMENTS (EOY)

TABLE II(e): FSLIC COMMITMENTS (AS OF CURRENT FSLIC ESTIMATES, IN NET PRESENT VALUE)

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
				PROMISSORY AND OTHER NOTES					
PRINCIPAL									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Retired									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for Year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
INTEREST									
New commitments									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OUTSTANDING NOTE COMMITMENTS									
				ASSISTANCE AGREEMENTS					
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									

CAPITAL LOSS AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----
(Gain sharing) ---- ( ) ( ) ( ) ( ) ( ) ( ) ( ) ( )

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

INDEMNIFICATION AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OUTSTANDING ASSISTANCE COMMITMENTS

OTHER COMMITMENTS

OTHER COMMITMENTS
Total commitments
New commitments ----
Paid out ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OTHER COMMITMENTS

TOTAL END-OF-YEAR COMMITMENTS

TOTAL -- ALL COMMITMENTS (EOY)

TABLE II(f): FSLIC COMMITMENTS (AS OF CURRENT FSLIC ESTIMATES, IN CASH BASIS VALUE)

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
					PROMISSORY AND OTHER NOTES				
PRINCIPAL									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Retired									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for Year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
INTEREST									
New commitments									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OUTSTANDING NOTE COMMITMENTS									
					ASSISTANCE AGREEMENTS				
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers	----								
Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									

CAPITAL LOSS AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----
(Gain sharing) ---- ( ) ( ) ( ) ( ) ( ) ( )

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

INDEMNIFICATION AGREEMENTS

Newly issued
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Paid out
Mergers ----
Acquisitions ----
Deposit Transfers ----
Depositor Payouts ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OUTSTANDING ASSISTANCE COMMITMENTS

OTHER COMMITMENTS

OTHER COMMITMENTS
Total commitments
New commitments ----
Paid out ----

Net for year ----

Net Estimating Changes ----

Total outstanding (EOY) --

OTHER COMMITMENTS

TOTAL END-OF-YEAR COMMITMENTS

TOTAL -- ALL COMMITMENTS (EOY)

TABLE III: FSLIC COMMITMENTS AND PAYMENTS

The following five tables requests actual and projected data on a cash basis, for payments on FSLIC commitments over time. The tables isolate the annual payment stream on each fiscal years' commitments through the year 1994. Table III(a) requests information on the various forms of notes obligations issued and repaid by FSLIC. Table III(b) requests information on yield maintenance agreements entered into and paid by FSLIC. Table III(c) requests information on capital loss guarantees entered into and paid on by FSLIC. Table III(d) requests information on indemnification agreements entered into and paid on by FSLIC. Finally, Table III(e) requests information on any other commitments not covered by Tables III(a)-(d) entered into by FSLIC.

The table row headings list the year in which the commitment is entered or issued. The column headings first list the total value for the commitment (cash basis for the notes, while the rest of the agreements request value on both a cash and a net present value basis). Then, the balance of the column headings list the fiscal year in which payments on the various commitments are made.

All projections should be based on FSLIC's most current information. In order to enable us to integrate this data into existing tables the Committee is developing, please use the table formats provided.

TABLE III(a): PBLIC COMMITMENTS AND PAYMENTS - NOTE OBLIGATIONS

YR NOTES AMOUNT ISSUED	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
PRE-1980															
1980															
1981	XXXX														
1982	XXXX	XXXX													
1983	XXXX	XXXX	XXXX												
1984	XXXX	XXXX	XXXX	XXXX											
1985	XXXX	XXXX	XXXX	XXXX	XXXX										
1986	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX									
1987	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX								
1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX							
1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					
1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
1992	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			
1993	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
1994	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

TABLE III(b): FSLIC COMMITMENTS AND PAYMENTS - YIELD MAINTENANCE AGREEMENTS

YR NOTES ISSUED	PV	CASH	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
PRE-1980																	
1980																	
1981			XXXX														
1982			XXXX	XXXX													
1983			XXXX	XXXX	XXXX												
1984			XXXX	XXXX	XXXX	XXXX											
1985			XXXX	XXXX	XXXX	XXXX	XXXX										
1986			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX									
1987			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX								
1988			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX							
1989			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
1990			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					
1991			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
1992			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			
1993			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
1994			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

TABLE III(c): FSLIC COMMITMENTS AND PAYMENTS - CAPITAL LOSS GUARANTEES

YR NOTES ISSUED	PV	CASH	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
PRE-1980																	
1980																	
1981			XXXX														
1982			XXXX	XXXX													
1983			XXXX	XXXX	XXXX												
1984			XXXX	XXXX	XXXX	XXXX											
1985			XXXX	XXXX	XXXX	XXXX	XXXX										
1986			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX									
1987			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX								
1988			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX							
1989			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
1990			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					
1991			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
1992			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			
1993			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
1994			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

TABLE III(d): FSLIC COMMITMENTS AND PAYMENTS - INDEMNIFICATION AGREEMENTS

YR NOTES ISSUED	PV	CASH	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
PRE-1980																	
1980																	
1981			XXXX														
1982			XXXX	XXXX													
1983			XXXX	XXXX	XXXX												
1984			XXXX	XXXX	XXXX	XXXX											
1985			XXXX	XXXX	XXXX	XXXX	XXXX										
1986			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX									
1987			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX								
1988			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX							
1989			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
1990			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					
1991			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
1992			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			
1993			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
1994			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

TABLE III(e): FSLIC COMMITMENTS AND PAYMENTS - OTHER AGREEMENTS

YR NOTES ISSUED	PV	CASH	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
PRE-1980																	
1980																	
1981			XXXX														
1982			XXXX	XXXX													
1983			XXXX	XXXX	XXXX												
1984			XXXX	XXXX	XXXX	XXXX											
1985			XXXX	XXXX	XXXX	XXXX	XXXX										
1986			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX									
1987			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX								
1988			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX							
1989			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
1990			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					
1991			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
1992			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			
1993			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
1994			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

TABLE IV: INSOLVENT INSTITUTIONS

The following six tables request data on FSLIC's caseload, the total number of insolvent institutions, and estimates to bailout the industry. The data requested are for three different points in time. September 30, 1987; September 30, 1988; and the most current figures reflecting FSLIC case resolutions to date. The September 30, 1987 tables to adjust for the fact that there was no Southwest Plan caseload at that point. This adjustment is made so that the September 30, 1987 data are comparable with subsequent data requested.

In addition, information is requested on RAP, GAAP-but-not-RAP, and tangible-but-not-GAAP (GAAP net worth - goodwill) insolvency bases. Again, this distinction is intended to establish comparability among the various tables.

Finally, cost estimates are requested on both a net present value and a cash basis. The assumptions behind FSLIC's net present value calculations used throughout the table should be discussed in detail, with specific information on discount rates used and the rationale behind the choice of discount rates.

This information should reflect the entire universe of thrifts, with deposits insured by FSLIC which are failing or in danger of failure, in categories which are mutually exclusive and exhaustive. These data should also be the basis on which FSLIC has been estimating the potential cost to resolve the current thrift crisis. If there are specific exceptions (i.e., a particular case or set of cases) to these general categories, please footnote accordingly. If this display format is inappropriate for some systemic reason, please correct the display format, including the data requested at the same level of detail and in mutually exclusive and exhaustive categories. Otherwise, in order to enable us to integrate this data into existing tables the Committee is developing, please use the table formats provided.

A narrative discussion should also be supplied which specifically details the crosswalk between Table iv and the spending plans reflected in Tables I (FSLIC Outlays) and II (FSLIC Commitments). It is assumed that FSLIC's commitment and cash flow planning processes specifically link existing and projected thrift insolvencies with specific commitment and cash flow plans to address the problem. Therefore, the linkage between these tables, which present estimates of the universe of problem institutions, and the financial information tables, which present a plan of action for case resolutions, should be easily developed.

TABLE IV(a): INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1987)

Caseload

Give figures for the official caseload subdivided into two categories: institutions which were ultimately placed on the Southwest Plan caseload and institutions which ultimately remained on the non-Southwest Plan caseload.

Non-caseload Institutions
Give figures for insolvent institutions that have not been officially recognized as liabilities of FSLIC (i.e., those institutions which are insolvent, by each measure of insolvency, but have not been placed on FSLIC's caseloads). Again, this table reflects a breakdown between institutions which were ultimately placed on the Southwest Plan caseload and institutions which ultimately remained on the non-Southwest Plan caseload. Each of these categories are further broken down by the district supervisory status, providing a breakdown of subtotals by FHLBB district, of the institutions.

Total
Give the total number of insolvent institutions on record as of September 30, 1987. This should be the total of both caseload and non-caseload insolvents detailed in the two sections above.

TABLE IV(b): COST OF INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1987)

Give detailed breakdown of the cost, on both a net present value and a cash basis, to resolve each category of insolvent institutions listed in the previous table for the same date. A detailed narrative description of the exact discount rate used for the net present value calculations, along with a discussion of the rationale for choosing the discount rate, should accompany the table.

TABLE IV(c): INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1988)

Caseload
Give figures for the official caseload subdivided into two categories: institutions which were on the Southwest Plan caseload and institutions which were on the non-Southwest Plan caseload.

Non-caseload Institutions
Give figures for insolvent institutions that have not been officially recognized as liabilities of FSLIC (i.e., those institutions which are insolvent but have not been placed on FSLIC's caseloads). This table reflects a breakdown between institutions which would be placed on the Southwest Plan caseload and institutions which would be placed on the non-Southwest Plan caseload. Each of these categories are further broken down by the district supervisory status of the institutions.

Total
Give the total number of insolvent institutions on record as of September 30, 1988. This should be the total of both caseload and non-caseload insolvents detailed in the two sections above.

TABLE IV(d): COST OF INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1988)

Give detailed breakdown of the cost, on both a net present value and a cash basis, to resolve each category of insolvent institutions listed in Table IV(b). A detailed narrative description of the exact discount rate used for the net present value calculations, along with a discussion of the rationale for choosing the discount rate, should accompany the table.

TABLES IV (e) & (f): CURRENT ESTIMATES

Follow the same instructions listed for Tables IV(c) & (d), updating the tables to include the most current information.

TABLE IV(a): INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1987)

	RAP INSOLVENT	GAAP BUT NOT RAP INSOLVENT	TANGIBLE BUT NOT GAAP INSOLVENT
CASELOAD			
SOUTHWEST PLAN	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )
NON-CASELOAD			
SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )
NON-SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )
TOTAL NUMBER OF INSOLVENT INSTITUTIONS	( )	( )	( )

TABLE IV(b): COST TO RESOLVE INSTITUTIONS (SEPTEMBER 30, 1987)

	RAP INSOLVENT		GAAP BUT NOT RAP INSOLVENT		TANGIBLE BUT NOT GAAP INSOLVENT	
	PV	CASH	PV	CASH	PV	CASH
CASELOAD						
SOUTHWEST PLAN	( )	( )	( )	( )	( )	(
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	(
TOTAL CASELOAD	( )	( )	( )	( )	( )	(
NON-CASELOAD						
SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION						
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
NON-SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
TOTAL NON-CASELOAD						
TOTAL COST TO RESOLVE INSOLVENT INSTITUTIONS	( )	( )	( )	( )	( )	(

TABLE IV(c): INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1988)

	RAP INSOLVENT	GAAP BUT NOT RAP INSOLVENT	TANGIBLE BUT NOT GAAP INSOLVENT
CASELOAD			
SOUTHWEST PLAN	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )
NON-CASELOAD			
SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )
NON-SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )
TOTAL NUMBER OF INSOLVENT INSTITUTIONS	( )	( )	( )

TABLE IV(d): COST TO RESOLVE INSTITUTIONS (SEPTEMBER 30, 1988)

	RAP INSOLVENT		GAAP BUT NOT RAP INSOLVENT		TANGIBLE BUT NOT GAAP INSOLVENT	
	PV	CASH	PV	CASH	PV	CASH
CASELOAD						
SOUTHWEST PLAN	( )	( )	( )	( )	( )	(
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	(
TOTAL CASELOAD	( )	( )	( )	( )	( )	(
NON-CASELOAD						
SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION						
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
NON-SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
TOTAL NON-CASELOAD						
TOTAL COST TO RESOLVE INSOLVENT INSTITUTIONS	( )	( )	( )	( )	( )	(

TABLE IV(e): INSOLVENT INSTITUTIONS (CURRENT ESTIMATES)

	RAP INSOLVENT	GAAP BUT NOT RAP INSOLVENT	TANGIBLE BUT NOT GAAP INSOLVENT
CASELOAD			
SOUTHWEST PLAN	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )
NON-CASELOAD			
SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )
NON-SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )
TOTAL NUMBER OF INSOLVENT INSTITUTIONS	( )	( )	( )

TABLE IV(f): COST TO RESOLVE INSTITUTIONS (CURRENT ESTIMATES)

	RAP INSOLVENT		GAAP BUT NOT RAP INSOLVENT		TANGIBLE BUT NOT GAAP INSOLVENT	
	PV	CASH	PV	CASH	PV	CASH
CASELOAD						
SOUTHWEST PLAN	( )	( )	( )	( )	( )	(
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	(
TOTAL CASELOAD	( )	( )	( )	( )	( )	(
NON-CASELOAD						
SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION						
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
NON-SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	(
TOTAL NON-CASELOAD						
TOTAL COST TO RESOLVE INSOLVENT INSTITUTIONS	( )	( )	( )	( )	( )	(

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TABLE V: CHANGES IN NUMBERS OF INSOLVENT THRIFTS

The following two tables request data on changes to FSLIC estimates of insolvent institutions and estimates to bail out those institutions. Table V(a) requests data on both the numbers of institutions and costs (on a present value and cash basis) to resolve between FSLIC estimates of December 31, 1987 and September 30, 1988. Table V(b) requests data on changes in both the numbers of institutions and costs to resolve (on a present value and cash basis) between FSLIC estimates of September 30, 1988 and current estimates.

The format of this table follows the format of Table IV (Insolvent Institutions). The data requested in the cell entries in this table should only be net changes to the data presented in Table IV, with detail on the gross additions and deletions from which the net change number is derived. Please follow the same instructions established for classifying data by the row headings in Table IV. Also, follow the same instructions for the general column headings of "RAP Insolvent", "GAAP-but-not-RAP Insolvent", and "Tangible-but-not-GAAP Insolvent".

As was also the case with Table IV, the format for presenting the September 30, 1987 data is adjusted to account for the fact that there was no Southwest Plan caseload at that point.

Finally, cost estimates are requested on both a net present value and a cash basis. As was the case with the "Insolvent Thrifts" table, a full discussion of the discount rates used, and the rationale behind the choice of discount rates used, for the net present value calculations should be included.

This information should reflect the entire set of changes in universe of insolvent thrifts insured by FSLIC in categories which are mutually exclusive and exhaustive. These data should also be the basis on which FSLIC has been estimating the potential cost to resolve the current thrift crisis. If there are specific exceptions (i.e., a particular case or set of cases) to these general categories; please footnote accordingly. If this display format is inappropriate for some systemic reason, please correct the display format, including the data requested at the same level of detail and in mutually exclusive and exhaustive categories.

TABLE V(a): CHANGES IN INSOLVENT INSTITUTIONS (9/30/87 - 9/30/88)

	RAP INSOLVENT								
	ADDITIONS			DELETIONS			NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CHANGE	( )	( )	( )	( )	( )	( )	( )	( )	( )

	GAAP INSOLVENT								
	ADDITIONS			- DELETIONS			= NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CHANGE	( )	( )	( )	( )	( )	( )	( )	( )	( )

	TANGIBLE INSOLVENT								
	ADDITIONS		-	DELETIONS		=	NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CHANGE	( )	( )	( )	( )	( )	( )	( )	( )	( )

TABLE V(b): CHANGES IN INSOLVENT INSTITUTIONS (9/30/88 - PRESENT)

	RAP INSOLVENT								
	ADDITIONS			DELETIONS			NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CHANGE	( )	( )	( )	( )	( )	( )	( )	( )	( )

	GAAP INSOLVENT								
	ADDITIONS		-	DELETIONS		=	NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CHANGE	( )	( )	( )	( )	( )	( )	( )	( )	( )

	TANGIBLE INSOLVENT								
	ADDITIONS -			DELETIONS =			NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
NOT UNDER DISTRICT SUPERVISION	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL NON-CASELOAD	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL CHANGE	( )	( )	( )	( )	( )	( )	( )	( )	( )

TABLE VI: FISCAL YEAR 1988 CASE RESOLUTIONS

Please respond to the following questions in table format. These tables seek information on the cost of case resolutions completed in federal Fiscal Year 1988, which ran from October 1, 1987, to September 30, 1988. In order to enable us to integrate this data into existing tables the Committee is developing, please use the formats we have provided.

Table rows are divided into four major categories, which appear to be the generic transactions which accomplish FSLIC case resolutions. A table should be provided with summary information for the entire Fiscal Year 1988. A separate table should also be completed for each deal (and within each deal, each separate institution involved) FSLIC has completed in Fiscal Year 1988 by date of completion. A "deal" is considered to be a separate, definable individual, or package of, case resolution(s). A deal may consist of a variety of institutions and a combination of resolution approaches, all of which should be separately and fully described under each deal. An "other" category is included in case there are deals which fall outside the three categories. If there are deals which fall into the "other" category, please provide an explanation of the transaction. Data should be displayed on both a net present value and a cash basis.

In a separate narrative section which tracks the table entries, please discuss the organizational and ownership structure of each of the individual deals listed, including a brief description of any new organizations that acquire interests in the resolved thrifts and/or associated organizations.

EXPLANATION OF ROW TITLES

Mergers

List all merger deals which occurred in Fiscal Year 1988. Under each deal, list, as separate row entries, the name of the new merger institution, any organization which acquires an ownership or management interest in the new merger institution, and a listing of each thrift institution which is considered to be resolved by the overall deal.

Acquisitions

List all acquisition deals which occurred in Fiscal Year 1988. Under each deal, list, as separate row entries, the name of the acquiring organization, the name of any organization newly formed as part of the deal, and each thrift institution which is considered to be resolved by the overall deal.

Deposit Transfers

List all deposit transfers which occurred in Fiscal Year 1988.

Under each deal, list, as separate row entries, the name of each thrift institution considered to be resolved by the deal and the name of any other institution involved in assuming responsibility for deposits over which FSLIC still maintains an insurance responsibility.

Depositor Payouts

List all depositor payouts which occurred in Fiscal Year 1988. Under each deal, list, as separate row entries, the name of each thrift institution considered to be resolved by the deal. It is assumed that any depositor payout of any case resolution terminates any continuing insurance responsibility of FSLIC for those deposits. If this is not the case, please fully describe any additional costs to and/or continuing insurance responsibility of the FSLIC, the rationale behind these additional costs and/or continuing insurance obligation, and the entity which receives the benefit of the additional costs and/or insurance coverage.

Other

List all other deals which do not fall into the above classifications. Provide information in the same format as described above.

EXPLANATION OF COLUMN TITLES

Private Capital Contribution

List the private capital contribution in dollars which is actually transferred to the case resolution (not committed at some future date or contingent on additional circumstances beyond the actual deal) by any organizations which gain an ownership or management interest in the thrift institutions being resolved. List the dollar amount separately by the organization making the contribution. If the contribution is in a form other than cash, please footnote with a description of the instrument or asset.

Tax Expenditures

List estimated cost of tax expenditures associated with each deal. The estimated cost of tax expenditures should reflect the full, multiyear estimate of the value of the tax breaks associated with the deal, including the carryover of built-in and net operating losses, the tax exemption of all FSLIC assistance, and any other special tax provisions associated with case resolutions. Tax expenditures associated with each deal should be displayed separately by the organization which receives the tax benefits. Each organization's tax benefits should be appropriately footnoted to identify the type(s) of tax break and dollar amount associated with the deal.

Total Cost to FSLIC

List, both on a present value and a cash basis, the total cost to FSLIC of the deal. The total cost should be displayed separately by which organization listed as involved in the overall deal is the actual recipient of the assistance. The total cost to FSLIC is defined as cash; notes (including interest and principal); indemnification, yield maintenance, and capital loss agreements; and any other assistance. These categories are listed separately and defined in more detail in the following columns.

Upfront Cash

List all upfront cash assistance provided by FSLIC as part of each deal. Cash assistance should be displayed separately by which organization listed as involved in the overall deal is the actual recipient of the assistance.

Notes

List all note assistance provided by FSLIC as part of each deal. Note assistance should be displayed separately by which organization listed as involved in the overall deal is the actual recipient of the assistance. For each row entry of note assistance, please provide separate totals for note principal and interest. Note interest should reflect the full cost of interest over the life of the note, and should be displayed in the year FSLIC issues the note.

Indemnification Agreements

List the estimated value of indemnification agreements entered into by FSLIC as part of each deal. The full estimated cost of each agreement should be displayed separately by which organization listed as involved in the overall deal is the actual recipient of the assistance. The cost of each agreement should reflect the full cost of the agreement over its life, and should be displayed in the year in which FSLIC enters the agreement.

Yield Maintenance Agreements

List the estimated value of yield maintenance agreements entered into by FSLIC as part of each deal. The full estimated cost of each agreement should be displayed separately by which organization listed as involved in the overall deal is the actual recipient of the assistance. The cost of each agreement should reflect the full cost of the agreement over its life, and should be displayed in the year in which FSLIC enters the agreement.

Capital Loss Agreements

List the estimated value of capital loss agreements entered into by FSLIC as part of each deal. The full estimated cost of each agreement should be displayed separately by which organization listed as involved in the overall deal is the actual recipient of the assistance. The cost of each agreement should reflect the full cost of the agreement over its life, and should be displayed in the year in which FSLIC enters the agreement.

Asset Base Covered by Yield Maintenance Agreements

List the estimated value of the asset base covered by FSLIC yield maintenance agreements in each deal. The full estimated value of the asset base covered of each agreement should be displayed separately by which organization listed as involved in the overall deal has the assets covered by the agreements. It is assumed that the organization holding the covered assets is also the organization receiving payments under the agreements. If this assumption is incorrect, please list separately the organization holding the assets and the organization receiving the benefits, and include a footnote explaining why this is the case. Also, if the valuation of the asset base is the same for all deals, provide a narrative discussion accompanying this table explaining how the assets are valued and the relationship to actual market value at the time FSLIC enters into the agreement. If the valuation varies from deal to deal, discuss the alternatives and provide the appropriate footnotes to identify which alternative is used with each agreement.

Asset Base Covered by Capital Loss Agreements

List the estimated value of the asset base covered by FSLIC capital loss agreements in each deal. The full estimated value of the asset base covered of each agreement should be displayed separately by which organization listed as involved in the overall deal has the assets covered by the agreements. It is assumed that the organization holding the covered assets is also the organization receiving payments under the agreements. If this assumption is incorrect, please list separately the organization holding the assets and the organization receiving the benefits, and include a footnote explaining why this is the case. Also, if the valuation of the asset base is that same for all deals, provide a narrative discussion accompanying this table explaining how the assets are valued and the relationship to actual market value at the time FSLIC enters into the agreement. If the valuation varies from deal to deal, discuss the alternatives and provide the appropriate footnotes to identify which alternative is used with each agreement.

Common Asset Base Coverage

List the dollar value of the asset base coverage which is common to each type of assistance agreement between FSLIC and each organization.

Net Worth (+/- Prior to Resolution)

List the net worth separately in dollars for each thrift institution involved in each deal listed prior to completion of the deal. Include case resolution thrifts as well as acquiror and merged institutions.

Capital Reserve ($ and % of Liabilities Prior to Resolution)

List the capital reserve in dollars and as a percentage for each thrift institution involved in each deal listed prior to completion of the deal. Include case resolution thrifts as well as acquiror and merged institutions.

Net Worth (+/- After Resolution)

List the net worth separately in dollars for each thrift institution involved in each deal listed after completion of the deal. Include case resolution thrifts as well as acquiror and merged institutions.

Capital Reserve ($ and % of Liabilities After Resolution)

List the capital reserve in dollars and as a percentage for each thrift institution involved in each deal listed after completion of the deal. Include case resolution thrifts as well as acquiror and merged institutions.

DEAL:
DATE OF COMPLETION:
INSTITUTION NAME:
(Note: The above three items
are only for the detailed tables)

TABLE VI: FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS	PRIVATE CAPITAL CONTRIBUTION		TAX EXPENDITURES		TOTAL COST TO FSLIC		UPFRONT CASH	NOTES		INDEMNIFICATION AGREEMENTS		YIELD MAINTENANCE AGREEMENTS		CAPITAL LOSS AGREEMENTS	
	PV	CASH	PV	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH	PV	CASH
MERGERS	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )
ACQUISITIONS	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )
DEPOSITOR PAYOUTS	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )
DEPOSIT TRANSFERS	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )
OTHER	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )

TABLE VI: FISCAL YEAR 1988 CASE RESOLUTIONS (CONTINUED)

INSTITUTIONS	ASSET BASE COVERED BY YIELD MAINTENANCE AGREEMENTS	ASSET BASE COVERED BY CAPITAL LOSS AGREEMENTS	COMMON ASSET BASE COVERAGE	NET WORTH (+/- PRIOR TO RESOLUTION)	CAPITAL RESERVE (% OF LIABILITIES PRIOR TO RESOLUTION)	NET WORTH (+/- AFTER RESOLUTION)	CAPITAL RESERVE (% OF LIABILITIES AFTER RESOLUTION
MERGERS	( )	( )	( )	( )	( )	( )	( )
ACQUISITIONS	( )	( )	( )	( )	( )	( )	( )
DEPOSITOR PAYOUTS	( )	( )	( )	( )	( )	( )	( )
DEPOSIT TRANSFERS	( )	( )	( )	( )	( )	( )	( )
OTHER	( )	( )	( )	( )	( )	( )	( )
TOTAL	( )	( )	( )	( )	( )	( )	( )

TABLE VII: FICO CASH FLOW

Please respond to the following questions in table format. This table seeks information on the cash flow, in a given fiscal year, of FICO. The time frame requested is federal Fiscal Years 1987-1994. Data should be presented on a cash basis. In order to enable us to integrate this data into existing tables the Committee is developing, please use the formats we have provided. The most current data available should be presented.

FINANCING

Contributions from Home Loan District Banks

List any financing or contributions from Home Loan District Banks in the fiscal year which FICO actually received or is projected to receive payment.

Investment Income

List any investment income in the year in which it is or is projected to be received to FICO.

Assessment Income

List industry assessment income in the year in which it is or is projected to be received by FICO.

Other

List any other resources available or projected to be available for FICO expenditures in the appropriate fiscal year.

COSTS

Investment in Zero Coupon Bonds

List the purchase of bonds securitizing FICO issuances in the fiscal year the cost is or is projected to be incurred.

Purchase of FSLIC Capital Stock

List the purchase of FSLIC capital stock by FICO in the fiscal year the cost is or is projected to be incurred.

Interest Payments on Bonds

List the payment of interest on FICO issuances in the fiscal year the payment is or is projected to be incurred.

Principal Payments on Bonds

List the payment of principal on FICO issuances in the fiscal year the payment is or is projected to be incurred.

Other

List any other FICO expenditures in the fiscal year these costs are or are projected to be incurred.

TABLE VII: FICO CASH FLOW

	1987	1988	1989	1990	1991	1992	1993	1994
FINANCING:								
CONTRIBUTIONS FROM HOME LOAN DISTRICT BANKS	( )	( )	( )	( )	( )	( )	( )	( )
MATURATION OF FICO BONDS	( )	( )	( )	( )	( )	( )	( )	( )
INVESTMENT INCOME	( )	( )	( )	( )	( )	( )	( )	( )
ASSESSMENT INCOME	( )	( )	( )	( )	( )	( )	( )	( )
OTHER	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL FINANCING	( )	( )	( )	( )	( )	( )	( )	( )
COSTS:								
INVESTMENT IN ZERO COUPON BONDS	( )	( )	( )	( )	( )	( )	( )	( )
PURCHASE OF FSLIC CAPITAL STOCK	( )	( )	( )	( )	( )	( )	( )	( )
INTEREST PAYMENTS ON BONDS	( )	( )	( )	( )	( )	( )	( )	( )
PRINCIPAL PAYMENTS ON BONDS	( )	( )	( )	( )	( )	( )	( )	( )
OTHER	( )	( )	( )	( )	( )	( )	( )	( )
TOTAL COSTS	( )	( )	( )	( )	( )	( )	( )	( )
NET CASH FLOW	( )	( )	( )	( )	( )	( )	( )	( )

ADDITIONAL TABLES

TABLE VIII: ASSET BASE AND INSTITUTION COVERAGE

Please provide detailed tables covering the following information using end-of-fiscal year data. Include entries from fiscal year to fiscal year which will explain the net change in each category by the appropriate detail (for instance, asset value changes may be explained by appreciation and/or deterioration, as well as by the entry and exit of institutions from FSLIC coverage):

- Table VIII(a) - the total number of institutions with insured deposits, the total deposit base of these institutions (with a subtotal for both insured and noninsured deposits), and the cash value of assets held by these institutions in each fiscal year from Fiscal Year 1987 to Fiscal Year 1994;
- Table VIII(b) - the total number of institutions with insured deposits, the total deposit base of these institutions (with a subtotal for both insured and noninsured deposits), and the cash value of those institutions' assets, which have received or are anticipated to receive assistance from FSLIC for each fiscal year from Fiscal Year 1987 to Fiscal Year 1994. This table is assumed to fully cover the institutions, the deposit base, and the asset base which FSLIC uses in projecting the overall "bailout cost" each year, not just the official caseload cost. If this is not the case, please provide the comparable data at the same detail on which FSLIC bases its estimates, and reconcile in narrative detail the differences between the two presentations of data; and
- Table VIII(c) - the total number of institutions actually or expected to be on the overall official FSLIC caseload in each year (including both the Southwest Plan and non-Southwest Plan caseloads), the total deposit base of these institutions (with a subtotal for both insured and noninsured deposits), and the cash value of these institutions' assets in each fiscal year from Fiscal Year 1987 to Fiscal Year 1994.

TABLE IX: FSLIC-HELD ASSETS

Please provide a detailed table showing end-of-year totals for (1) total cash value of assets held by FSLIC at the end of the fiscal year, (2) total cash value of assets acquired by FSLIC over the fiscal year, (3) total cash value assets liquidated by FSLIC over the fiscal year, (4) the total value of asset write ups, and (5) the total value of asset write downs. The table should provide end-of-year data for the time period of Fiscal Years 1987-1994.

TABLE X: TAX EXPENDITURES

Please provide a detailed table showing the end-of-year totals (actual and projected, on a cash basis) of tax expenditures associated with case resolutions performed or to be performed by FSLIC in each of Fiscal Years 1987-1994. Outyear tax losses stemming from a given fiscal year's case resolutions should be displayed separately in the fiscal year in which the loss occurs (i.e., a Fiscal Year 1990 tax expenditure total on the table would then be subdivided by losses associated with 1990 resolutions, losses associated with 1989 resolutions, etc.) The table should break out the total tax expenditure by all specific tax provisions associated with case resolutions, including, but not limited to, carryovers of built-in and net operating losses and the tax exempt status of FSLIC assistance.

TABLE XI: CONTINUING INSURANCE OBLIGATION AFTER RESOLUTIONS

For Fiscal Years 1987-1994, using current FSLIC estimates and the table format instructions accompanying the table entitled "FSLIC COMMITMENTS", please provide a table listing total FSLIC commitments, and the dollar amount of FSLIC-insured deposits (broken down by the four categories listed below) which, through case resolutions, no longer represent a continuing FSLIC insurance obligation. It is assumed that the only transactions (other than normal withdrawals by depositors) which fulfill and terminate FSLIC's insurance obligation and liability for deposits fall into four categories: depositor payouts; deposit transfers to FDIC-insured institutions; exit of FSLIC-insured institutions to FDIC insurance; and acquisitions of institutions with FSLIC-insured deposits by FDIC-insured institutions.

It is further assumed that all other assistance provided fulfills FSLIC's insurance obligation in a more indirect fashion; i.e., the case resolution actions simply preserve continued access by depositors to their insured deposits. If these assumptions are correct, then FSLIC has committed resources that ultimately will entail expenditures, or the possibility of expenditures, which do not terminate the parallel and continuing insurance obligation for insured deposits. If these assumptions are incorrect, please provide a detailed narrative accompanying this table which correctly portrays how FSLIC's insurance obligation for deposits in problem thrifts is affected (i.e., either continued or terminated) by case resolutions.

Also include a separate table listing any actual and projected dollar losses to ownership interests of thrifts which have been or are projected to be resolved over the same time frame.

QUESTIONS

SOUTHWEST PLAN

Describe in detail how the Southwest Plan coverage is defined. Specifically describe the process by which inclusion in the Southwest Plan caseload was and is determined. Is plan coverage determined by geographic location? Cost to resolve? Size of deposit base? Are additions to the Southwest Plan caseload not possible, or have there been or are there projected to be new entries? Is there any possibility of further delineations of FSLIC's overall caseload, or does FSLIC intend to stick with the current definitions of the Southwest Plan and non-Southwest Plan caseloads?

DISTRICT SUPERVISION AND FSLIC RESOLUTION OF INSOLVENT THRIFTS

Develop a flow chart and accompanying narrative which explains in full the exact steps involved in the entry, maintenance, and exit of thrifts from district supervisory and from FSLIC caseload status. It is assumed that this response to this request is simply FSLIC's basic management plan. It is further assumed that these two general categories of problem resolution actions cover the universe of procedures employed in addressing institutions experiencing difficulties. If these two sets of procedures do not cover the full range of possibilities, please modify the flow chart and narrative to accommodate the additional steps. Specifically include whether each step and set of actions is discretionary or mandatory. The chart and narrative should encompass all steps, analyses, conditions, set of actions, etc., necessary for a complete understanding of how institutions come under district supervision, what actions are taken in district supervision, and how institutions leave supervisory status, as well as the comparable steps, stages, and actions taken by FSLIC.

FSLIC ECONOMIC AND DEPOSIT GROWTH ASSUMPTIONS

Please provide current FSLIC assumptions for real GNP, nominal GNP, total deposits in federally-insured depository institutions (i.e., banks, thrifts, and credit unions) as a percentage of nominal GNP, total deposits in FSLIC-insured institutions as percentage of total deposits in federally-insured institutions. These data should be accompanied by a narrative justification for the assumptions, and should cover end-of-year data for Fiscal Years 1987-1994.

FICO NOTE ISSUANCE

Please discuss in detail how FICO determines the timing of note issuance and how the notes are marketed. If the notes are stripped after they are marketed, please discuss FSLIC's view of Congressional intent regarding stripping, how the principal and interest strips have been marketed, and what groupings of investors currently hold outstanding principal and interest strips. In addition, please provide the outstanding par value at maturity of FICO bonds which have not been stripped, principal strips, and interest strips. What are the policy implications of allowing stripping to occur. Specifically, discuss the impact on FICO's cost of borrowing (comparing, with comparable Treasury issues as the benchmark, the cost of borrowing for stripped and unstripped FICO bonds, as well as comparisons with other comparable stripped and unstripped agency and private securities). Finally, discuss the perceived market risk differential between interest and principal strips.

LEAST COST SOLUTIONS

What is FSLIC's interpretation of its responsibility to conduct least cost resolutions? Specifically, what entity, in FSLIC's view, must have their costs minimized by FSLIC's resolution actions: FSLIC or the federal government on a consolidated basis? Do FSLIC's calculations of least cost alternatives for case resolutions include the cost of tax expenditures? Please provide FSLIC's least cost analyses for at least three actual case resolutions which FSLIC feels are a fair representation of the range of resolutions completed last year. In addition, please provide the same analyses for the deals involving Pelican Homestead, Southwest Savings, Sunbelt, and State Federal of Lubbock.

MAGNITUDE OF THE THRIFT PROBLEM

Of the roughly 3000 savings and loan institutions insured by the FSLIC, what percentage of the insurance fund's total negative net worth is accounted for by the 100 most severely troubled institutions? What is the dollar value of that negative net worth?

Of the roughly 3000 thrift institutions insured by FSLIC, what percentage of FSLIC's total negative net worth is accounted for by the 25 most severely troubled savings and loans? What is the dollar value of that negative net worth?

What does the Bank Board estimate the current negative net worth of the FSLIC insurance fund to be?

Federal Home Loan Bank Board
OFFICE OF THE CHAIRMAN

M. DANNY WALL, Chairman

1700 G Street, N.W
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

FEB 15 1989

The Honorable Jim Sasser
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Attached is our submission of the data requested by your committee in the memo of November 16, 1988 from the then committee chairman, Lawton Chiles. As you know, certain questions were re-defined from their original request after a meeting between the Senate Budget and Federal Home Loan Bank Board staffs.

Please note that although the date of this report is January 31, 1989, the projected outlays and commitments in Tables I, II, and III, were based on the Federal Home Loan Bank Board's projections of mid-December 1988. These were the "current" projections at the time the report's preparation began. The Bank Board is presently updating its projections, to be completed in the near future. Upon completion, they will be made available to your committee.

Sincerely,

M. Danny Wall
Chairman

Response to the

UNITED STATES SENATE
COMMITTEE ON THE BUDGET

from

FEDERAL HOME LOAN BANK BOARD
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

January 31, 1989

NOTE: Although the date of this report is January 31, 1989, the projected outlays and commitments in Tables I, II, and III, were based on the Federal Home Loan Bank Board`s projections of mid-December 1988. These were the "current" projections at the time the report`s preparation began. The Bank Board is presently updating its projections, to be completed in the near future.

Budget Submitted to OHB

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
PRO FORMA: ESTIMATED BUDGET OUTLAYS AND CASH FLOWS
FISCAL YEARS 1989 - 1999
(000's OMITTED) VERSION 3

PRELIMINARY DRAFT FOR DISCUSSION ONLY
Assumptions:
Cases identified as of September 30, 1988
are resolved. No new cases are added.

12-Dec-8
03:29 P

NOTES	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	Total (1989-1994
1 ADMINISTRATIVE EXPENSES	1,667	1,734	1,803	1,875	1,950	2,028	11,05
2 LIQUIDATION AND OTHER NON-ADMINISTRATIVE EXPENSES	174,242	181,212	188,461	195,999	170,999	145,999	1,056,91
3 ASSESSMENTS BY FHLBB	34,303	35,675	37,102	38,586	40,129	41,734	227,52
4 CAPITALIZED FURNITURE, FIXTURES AND EQUIPMENT	6,000	6,240	6,490	6,750	7,020	7,301	39,80
5 ASSETS ACQUIRED	235,000	100,000	100,000	0	0	0	435,00
6 INTEREST ON ADDITIONAL FINANCING	141,000	416,050	917,850	1,465,425	1,812,520	2,089,210	6,840,05
7 INTEREST ON NOTES PAYABLE	1,414,583	1,878,453	1,800,147	1,603,328	1,386,876	1,231,554	9,314,94
8 REPAYMENTS OF NOTES PAYABLE							
A. CAPITAL CERTIFICATE NOTES	0	14,900	718,957	26,825	170,750	0	931,43
b. CASE NOTES ISSUED THROUGH 1986	21,894	0	898,755	0	36,000	0	956,64
9 ASSISTED SOLUTIONS							
A. CASH	6,427,224	5,666,838	5,996,156	4,923,369	3,876,157	2,868,527	29,758,27
B. NEW NOTES PAYABLE	9,596,266	1,331,789	1,072,929	0	0	0	12,000,9
10 LIQUIDATIONS							
A. CASH	2,279,065	1,220,182	781,953	0	0	0	4,281,2
B. NEW NOTES PAYABLE	1,770,213	984,017	630,607	0	0	0	3,384,8
11 RECAPITALIZATION PROCEEDS	(3,750,000)	(3,325,000)	0	0	0	0	(7,075,0
12 REGULAR INSURANCE PREMIUMS	(215,372)	63,338	106,473	36,726	(38,034)	(118,165)	(165,0
13 SPECIAL INSURANCE PREMIUMS	(1,394,749)	(1,247,362)	(1,367,160)	(1,489,533)	(1,388,644)	(1,792,879)	(8,680,3
14 INTEREST ON SECURITIES	0	0	0	0	0	(4,000)	(4,0
15 INCOME FROM ASSETS ACQUIRED	(87,576)	(87,009)	(78,555)	(68,561)	(56,582)	(45,879)	(426,1
16 INTEREST ON LOANS	(21,201)	(20,215)	(18,633)	(17,372)	(16,155)	(13,888)	(107,4
17 INTEREST ON RECEIVERSHIP CLAIMS	(31,077)	(33,285)	(29,464)	(23,447)	(16,927)	(10,882)	(145,0
18 CAPITAL CERTIFICATE INCOME	(69,591)	(69,591)	(69,591)	(69,591)	(69,591)	(69,591)	(417,5
19 MISCELLANEOUS INCOME	(182,590)	(160,093)	(154,167)	(138,965)	(145,913)	(145,913)	(927,6
20 LIQUIDATION OF ASSETS ACQUIRED	(147,564)	(164,005)	(159,265)	(155,150)	(137,629)	(195,288)	(958,8
21 LIQUIDATION OF LOANS	(8,812)	(8,812)	(8,812)	(8,812)	(8,812)	(61,711)	(105,7
22 LIQ. OF RECEIVERSHIP CLAIMS	(1,189,786)	(1,617,504)	(1,407,366)	(1,314,705)	(2,036,004)	(2,029,772)	(9,395,1
23 Net Budgetary Outlay	15,003,138	5,365,552	9,964,691	5,012,746	3,588,109	1,898,385	40,832,6
* 24 ADDITIONAL BORROWING	3,000,000	3,100,000	8,900,000	5,100,000	5,000,000	1,900,000	27,000,0
25 REPAYMENT OF ADDITIONAL BORROWING	0	0	0	0	0	0	
26 REPAYMENT OF NOTES PAYABLE ISSUED AFTER 1986	(8,600)	(22,584)	(680,339)	(22,584)	(1,478,183)	(15,984)	(2,226,2
27 Cash Inflow (Outflow)	(645,259)	27,670	(41,493)	64,670	(66,292)	(12,369)	(673,0
28 End-Of-Year Investments	1,035,837	1,063,507	1,022,014	1,086,684	1,020,392	1,008,023	
29 OUTSTANDING NOTES PAYABLE	23,047,011	25,325,333	24,730,819	24,681,411	22,996,478	22,982,494	
30 OUTSTANDING ADDITIONAL FINANCING	3,000,000	6,100,000	15,000,000	20,100,000	25,100,000	27,000,000	

*The Corporation's ability to continue resolving cases would require special and regular insurance premium receipts decades into the future unless Congress provide FSLIC additional resources beyond those presently available to it.

TABLE I. FSLIC OUTLAYS

TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE) $MILLIONS

	EXPENDITURES							
	ACTUAL FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY NOTES								
Principal								
Mergers/Acquisitions		6,288.9	3,478.0	1,749.0	1,754.0	1,198.0	320.4	320.4
Deposit Transfers		0.0	0.0	0.0	0.0	0.0	283.3	283.3
Depositor Payouts		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes		319.9	239.9	179.9	135.0	101.2	121.5	91.1
Subtotal	2,471.7	6,608.8	3,717.9	1,928.9	1,889.0	1,299.2	725.2	694.8
Interest								
Mergers/Acquisitions		321.3	608.4	645.3	647.6	660.4	554.3	328.7
Deposit Transfers		68.1	68.0	68.0	68.0	68.0	56.7	34.0
Depositor Payouts		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes		89.6	67.2	50.4	37.8	28.4	19.5	11.0
Subtotal	308.6	479.0	743.6	763.8	753.4	756.8	630.5	373.7
Total	2,780.3	7,087.7	4,461.5	2,692.8	2,642.3	2,056.0	1,355.7	1,068.5
ASSISTANCE AGREEMENTS (SOUTHWEST PLAN ONLY)								
Yield Maintenance								
Mergers/Acquisitions	0.0	650.0	1,300.0	1,170.0	1,040.0	910.0	0.0	0.0
Deposit Transfers								
Depositor Payouts								
Total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Capital Loss								
Mergers/Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
(Gain Sharing)	( )	( )	( )	( )	( )	( )	( )	( )
Indemnification Agreements								
Mergers/Acquisitions								
Deposit Transfers								
Depositor Payouts								
Total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OTHER ASSISTANCE AGREEMENTS	77.7	482.9	152.9	800.9	1,001.9	314.9	100.0	100.0
UPFRONT CASH ASSISTANCE								
Mergers/Acquisitions		N/A	N/A	N/A	N/A	N/A	N/A	N/A
Deposit Transfers		2,000.0	500.0	500.0	500.0	500.0	0.0	0.0
Depositor Payouts		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	3,221.0	2,000.0	500.0	500.0	500.0	500.0	0.0	0.0
MISCELLANEOUS COSTS								
Administration Costs	1.2	1.6	1.7	1.8	1.9	2.0	2.0	2.0
Other	132.7	167.9	177.9	186.5	196.9	212.3	212.3	212.3
Total	133.9	169.5	179.6	188.3	198.8	214.3	214.3	214.3
	--------	--------	--------	--------	--------	--------	--------	--------
TOTAL EXPENDITURES	6,212.9	10,390.1	6,594.0	5,352.0	5,383.0	3,995.2	1,670.0	1,382.8

	FINANCING							
	ACTUAL FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
Regular Assessments	775.9	585.6	428.2	322.1	270.0	241.3	217.7	199.5
Special Assessments	1,100.6	1,032.1	1,151.0	1,269.5	1,389.4	1,512.2	1,423.3	1,814.9
Section 404(i) "Special Deposits"	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FICO Proceeds	0.0	3,050.0	2,000.0	1,500.0	1,000.0	1,000.0	1,000.0	1,000.0
Liquidations of Receiverships	274.3	1,695.1	1,018.9	1,018.9	1,018.9	1,018.9	948.4	860.0
Tax Rebates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Income	225.2	217.0	276.9	230.1	149.0	116.1	110.0	106.3
Other	199.9	242.8	250.2	257.5	244.4	215.1	222.7	230.4
	--------	--------	--------	--------	--------	--------	--------	--------
TOTAL FINANCING	2,575.8	6,822.5	5,125.1	4,598.2	4,071.8	4,103.6	3,922.1	4,211.1
BUDGET OUTLAY (INLAY)	3,637.1	3,567.6	1,468.9	753.8	1,311.2	(108.4)	(2,252.1)	(2,828.3)

N/A = NOT AVAILABLE
NOTE: FIGURES FOR PROMISSORY NOTES, ASSISTANCE AGREEMENTS AND UPFRONT CASH ASSISTANCE ARE PRESENT VALUE NUMBERS.

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Promissory Notes, Principal, Mergers/Acquisitions

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	21.9	0.0	0.0	0.0	15.0	320.4	320.4
FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		6,267.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			3,478.0	0.0	0.0	0.0	0.0	0.0
FY90				1,749.0	0.0	0.0	0.0	0.0
FY91					1,754.0	0.0	0.0	0.0
FY92						1,183.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Principal, Deposit Transfers

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	0.0	0.0	0.0	0.0	0.0	283.3	283.3
FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Principal, Depositor Payouts

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Promissory Notes, Principal, Capital Certificate Notes

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	319.9	239.9	179.9	135.0	101.2	121.5	91.1
FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Interest, Mergers/Acquisitions

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	78.9	78.1	78.1	78.1	77.5	64.1	38.4
FY87	N/A	3.8	0.0	0.0	0.0	0.0	0.0	0.0
FY88		238.6	391.2	219.2	81.2	14.6	0.0	0.0
FY89			139.1	278.2	278.2	240.8	115.4	13.7
FY90				70.2	139.9	139.9	139.9	70.0
FY91					70.2	140.3	140.3	112.0
FY92						47.3	94.6	94.6
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Interest, Deposit Transfers

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	68.1	68.0	68.0	68.0	68.0	56.7	34.0
FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Promissory Notes, Interest, Depositor Payouts

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Interest, Capital Certificate Notes

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	89.5	67.1	50.3	37.7	28.3	19.4	10.9
FY87	N/A	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Assistance Agreements, Yield Maintenance, Mergers/Acquisitions

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Assistance Agreements, Yield Maintenance, Gain Sharing

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

ROW ENTRY - Assistance Agreements, Capital Loss, Mergers/Acquisitions

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

ROW ENTRY - Assistance Agreements, Capital Loss, Gain Sharing

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Assistance Agreements, Indemnification Agreements, Mergers/Acquisitions

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

ROW ENTRY - Other Assistance Agreements

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

ROW ENTRY - Upfront Cash Assistance, Mergers/Acquisitions

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY89			N/A	0.0	0.0	0.0	0.0	0.0
FY90				N/A	0.0	0.0	0.0	0.0
FY91					N/A	0.0	0.0	0.0
FY92						N/A	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Upfront Cash Assistance, Deposit Transfers

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		2,000.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			500.0	0.0	0.0	0.0	0.0	0.0
FY90				500.0	0.0	0.0	0.0	0.0
FY91					500.0	0.0	0.0	0.0
FY92						500.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Upfront Cash Assistance, Depositor Payouts

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Miscellaneous Costs, Administration Costs

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		1.6	0.0	0.0	0.0	0.0	0.0	0.0
FY89			1.7	0.0	0.0	0.0	0.0	0.0
FY90				1.8	0.0	0.0	0.0	0.0
FY91					1.9	0.0	0.0	0.0
FY92						2.0	0.0	0.0
FY93							2.0	0.0
FY94								2.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(a): FSLIC OUTLAYS (AS OF SEPTEMBER 30, 1987, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Miscellaneous Costs, Other

	ACTUAL FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	132.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		167.9	0.0	0.0	0.0	0.0	0.0	0.0
FY89			177.9	0.0	0.0	0.0	0.0	0.0
FY90				186.5	0.0	0.0	0.0	0.0
FY91					196.9	0.0	0.0	0.0
FY92						212.3	0.0	0.0
FY93							212.3	0.0
FY94								212.3

N/A = NOT AVAILABLE

TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE) $MILLIONS

EXPENDITURES	ACTUAL FY1987	ACTUAL FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY NOTES								
Principal								
Mergers/Acquisitions		8,156.0	9,618.2	1,331.8	1,971.7	0.0	36.0	0.0
Deposit Transfers		1,284.0	1,770.2	984.0	630.6	0.0	0.0	0.0
Depositor Payouts		348.2	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes		8.1	0.0	14.9	719.0	26.8	170.8	0.0
Subtotal	2,471.7	9,796.3	11,388.4	2,330.7	3,321.3	26.8	206.8	0.0
Interest								
Mergers/Acquisitions			1,238.8	1,604.8	1,525.5	1,369.9	1,183.9	1,049.4
Deposit Transfers			97.9	200.4	232.1	219.7	197.0	181.4
Depositor Payouts			0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes			78.0	73.9	42.0	13.7	6.5	1.4
Subtotal	308.6	290.5	1,414.7	1,879.1	1,799.6	1,603.3	1,387.4	1,232.2
Total	2,780.3	10,086.8	12,803.1	4,209.8	5,120.9	1,630.1	1,594.2	1,232.2
ASSISTANCE AGREEMENTS (SOUTHWEST PLAN ONLY)								
Yield Maintenance								
Mergers/Acquisitions	0.0	0.0	3,189.0	3,318.8	2,995.7	2,649.2	2,229.8	1,891.8
(Return on Assistance)	0.0	0.0	(34.8)	(22.0)	(71.7)	(71.6)	(71.4)	(68.2)
Total	0.0	0.0	3,154.2	3,296.8	2,924.0	2,577.6	2,158.4	1,823.7
Capital Loss								
Mergers/Acquisitions	0.0	0.0	57.6	26.0	26.0	65.5	75.7	75.7
(Gain Sharing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indemnification Agreements								
Mergers/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER ASSISTANCE AGREEMENTS	77.7	675.2	1,552.7	1,437.2	2,073.2	2,280.2	1,642.1	969.2
UPFRONT CASH ASSISTANCE								
Mergers/Acquisitions		1,212.0	1,897.7	1,006.8	1,072.9	0.0	0.0	0.0
Deposit Transfers		1,697.3	2,279.1	1,220.2	782.0	0.0	0.0	0.0
Depositor Payouts		1,756.7	0.0	0.0	0.0	0.0	0.0	0.0
Total	3,221.0	4,666.0	4,176.8	2,227.0	1,854.9	0.0	0.0	0.0
MISCELLANEOUS COSTS								
Administration Costs	1.2	1.4	1.7	1.7	1.8	1.9	2.0	2.0
Other	132.7	215.8	355.5	637.2	1,149.9	1,706.8	2,030.7	2,284.2
Total	133.9	217.2	357.2	638.9	1,151.7	1,708.7	2,032.7	2,286.2
TOTAL EXPENDITURES	6,212.9	15,645.1	22,101.6	11,835.8	13,150.7	8,262.2	7,503.1	6,386.9

FINANCING	ACTUAL FY1987	ACTUAL FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
Regular Assessments	775.9	534.9	215.4	(63.3)	(106.5)	(36.7)	38.0	118.2
Special Assessments	1,100.6	1,185.5	1,394.7	1,247.4	1,367.2	1,489.5	1,388.6	1,792.9
Section 404(i) "Special Deposits"	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FICO Proceeds	0.0	3,750.0	3,750.0	3,325.0	0.0	0.0	0.0	0.0
Liquidations of Receiverships	274.3	1,361.7	1,189.8	1,417.5	1,407.4	1,314.7	2,036.0	2,029.8
Tax Rebates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Income	225.2	285.1	139.9	140.5	126.7	109.4	89.7	70.6
Other	199.9	855.5	408.6	402.5	391.8	372.5	361.9	472.5
TOTAL FINANCING	2,575.8	7,972.7	7,098.4	6,469.6	3,186.6	3,249.4	3,914.2	4,484.0
BUDGET OUTLAY (INLAY)	3,637.1	7,672.4	15,003.2	5,366.2	9,964.1	5,012.8	3,588.9	1,902.9
Additional Borrowing	0.0	0.0	3,000.0	3,100.0	8,900.0	5,100.0	5,000.0	1,900.0

N/A = NOT AVAILABLE

NOTE: THE "CURRENT ESTIMATES" ON TABLES I, II AND III ARE BASED ON DECEMBER, 1988 PROJECTIONS THAT, IN TURN, WERE BASED ON SEPTEMBER, 1988 INDUSTRY FINANCIAL DATA.

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Promissory Notes, Principal, Mergers/Acquisitions

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	21.9	0.0	898.8	0.0	36.0	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY89			9,596.3	0.0	0.0	0.0	0.0	0.0
FY90				1,331.8	0.0	0.0	0.0	0.0
FY91					1,072.9	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Principal, Deposit Transfers

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY89			1,770.2	0.0	0.0	0.0	0.0	0.0
FY90				984.0	0.0	0.0	0.0	0.0
FY91					630.6	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Principal, Depositor Payouts

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Promissory Notes, Principal, Capital Certificate Notes

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	0.0	14.9	719.0	26.8	170.8	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Interest, Mergers/Acquisitions

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	77.0	72.6	34.9	2.3	1.1	0.0
FY87	N/A	N/A	7.5	5.9	2.3	0.0	0.0	0.0
FY88		N/A	763.7	729.0	663.9	588.8	484.4	406.1
FY89			390.6	745.6	690.0	622.8	558.5	514.4
FY90				51.7	95.8	86.4	77.5	71.4
FY91					38.6	69.6	62.4	57.5
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Interest, Deposit Transfers

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	25.9	24.7	11.4	0.0	0.0	0.0
FY89			72.0	137.5	127.3	114.9	103.0	94.9
FY90				38.2	70.7	63.9	57.3	52.7
FY91					22.7	40.9	36.7	33.8
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Promissory Notes, Interest, Depositor Payouts

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Promissory Notes, Interest, Capital Certificate Notes

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	78.0	73.9	42.0	13.7	6.5	1.4
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Assistance Agreements, Yield Maintenance, Mergers/Acquisitions

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	1,522.6	1,415.7	1,280.4	1,124.0	954.7	848.1
FY89			1,666.4	1,903.0	1,715.3	1,525.2	1,275.1	1,043.7
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Assistance Agreements, Yield Maintenance, Return on Assistance

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	33.1	19.8	19.6	19.5	19.0	15.9
FY89			1.7	2.2	52.1	52.0	52.4	52.3
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Assistance Agreements, Capital Loss, Mergers/Acquisitions

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		0.0	57.6	26.0	26.0	65.5	75.7	75.7
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Assistance Agreements, Capital Loss, Gain Sharing

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Assistance Agreements, Indemnification Agreements, Mergers/Acquisitions

(SOUTHWEST PLAN ONLY)

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY88		N/A	N/A	N/A	N/A	N/A	N/A	N/A
FY89			N/A	N/A	N/A	N/A	N/A	N/A
FY90				N/A	N/A	N/A	N/A	N/A
FY91					N/A	N/A	N/A	N/A
FY92						N/A	N/A	N/A
FY93							N/A	N/A
FY94								N/A

ROW ENTRY - Other Assistance Agreements

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		N/A	737.7	155.6	112.7	98.4	90.9	68.3
FY89			815.0	1,181.6	1,139.3	918.1	364.4	135.0
FY90				100.0	721.2	792.3	668.8	291.6
FY91					100.0	471.5	518.0	474.2
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Upfront Cash Assistance, Mergers/Acquisitions

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		1,212.0	0.0	0.0	0.0	0.0	0.0	0.0
FY89			1,897.7	0.0	0.0	0.0	0.0	0.0
FY90				1,006.8	0.0	0.0	0.0	0.0
FY91					1,072.9	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Upfront Cash Assistance, Deposit Transfers

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY87	N/A	N/A	0.0	0.0	0.0	0.0	0.0	0.0
FY88		1,697.3	0.0	0.0	0.0	0.0	0.0	0.0
FY89			2,279.1	0.0	0.0	0.0	0.0	0.0
FY90				1,220.2	0.0	0.0	0.0	0.0
FY91					782.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Upfront Cash Assistance, Depositor Payouts

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		1,756.7	0.0	0.0	0.0	0.0	0.0	0.0
FY89			0.0	0.0	0.0	0.0	0.0	0.0
FY90				0.0	0.0	0.0	0.0	0.0
FY91					0.0	0.0	0.0	0.0
FY92						0.0	0.0	0.0
FY93							0.0	0.0
FY94								0.0

ROW ENTRY - Miscellaneous Costs, Administration Costs

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		1.4	0.0	0.0	0.0	0.0	0.0	0.0
FY89			1.7	0.0	0.0	0.0	0.0	0.0
FY90				1.7	0.0	0.0	0.0	0.0
FY91					1.8	0.0	0.0	0.0
FY92						1.9	0.0	0.0
FY93							2.0	0.0
FY94								2.0

N/A = NOT AVAILABLE

DISPLAY TO ACCOMPANY TABLE I(c): FSLIC OUTLAYS (AS OF CURRENT ESTIMATES, IN CASH-BASIS VALUE)

($ MILLIONS)

ROW ENTRY - Miscellaneous Costs, Other

	ACTUAL FY87	ACTUAL FY88	FY89	FY90	FY91	FY92	FY93	FY94
PRE-FY87	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY87	132.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FY88		215.8	0.0	0.0	0.0	0.0	0.0	0.0
FY89			355.5	0.0	0.0	0.0	0.0	0.0
FY90				637.2	0.0	0.0	0.0	0.0
FY91					1,149.9	0.0	0.0	0.0
FY92						1,706.8	0.0	0.0
FY93							2,030.7	0.0
FY94								2,284.2

N/A = NOT AVAILABLE

Tables I(a) and I(b)
Statutory Authorities

1. Expenditures

Promissory Notes (Principal and Interest) - Sections 402(b), 405(b), 406(d) and 406(f) of the National Houising Act, as amended.

Assistance Agreements - Section 406(f) of the National Housing Act, as amended.

Upfront Cash (Liquidations) - Section 405(b) of the National Housing Act, as amended.

Upfront Cash (Assistance Agreements) - Section 406(f) of the National Housing Act, as amended.

Miscellaneous Costs - Section 401(c) of the National Housing Act, as amended.

2. Financing

Regular Assessment - Section 404(b) of the National Housing Act, as amended.

Special Assessment - Section 404(c) of the National Housing Act, as amended.

"Special Deposits" - Section 404(i) of the National Housing Act, as amended.

FICO Proceeds - Section 21 of the Federal Home Loan Bank Act, as amended by the Competitive Equality Banking Act 1987.

Liquidations of Receiverships - Sections 406(b) and 406(c) of the National Housing Act, as amended.

Tax Rebates - Section 597 of the Internal Revenue Code, pursuant to the assistance agreement. (Such tax rebates, if any, would be included in the terms of the assistance agreement itself).

Borrowing - Section 402(i) of the National Housing Act, as amended. (Assuming that "borrowing" means the existing $750 million line of credit that FSLIC has with the U.S. Department of Treasury and the authority to borrow from the FHLBB's).

Interest Income and Other - Section 402 (d) of the National Housing Act, as amended.

The following is a summary of the major differences between the budget projections released to the Senate Banking Committee in May 1988 (September 1987 version) and the budget projections which served as the basis for FSLIC's budget submittal to OMB in December (December 1988 version).

1. Projections for case costs in the September 1987 version were based primarily on FSLIC's Financial Assistance Division's (FAD) estimates used in a report to Congressional tax committees. The FAD estimates were, in turn based on FSLIC case lists and Mergers and Acquisition Division (MAD) and Analysis and Evaluation Division (AED) cost estimates. In addition to the FAD estimates, costs for the Southwest Plan were included in accordance with preliminary estimates provided by the Southwest plan study. After the case cost estimates were compiled, they were checked to be sure they could cover FSLIC's estimated liability for unresolved cases as of December 31, 1987 totaling $22.7 billion, plus the cost of cases resolved in the first quarter of FY 1988 (Oct.-Dec., 1987). In retrospect, it appears an error was made in that the $22.7 billion was a net present value number and the cash flows were not undiscounted.

Projections for case costs in the December 1988 version were based primarily on FSLIC's estimated liability for unresolved cases as of September 30, 1988 plus liabilities for prior case resolutions which appeared on FSLIC's balance sheet at that time. Since both the estimates for unresolved cases and the balance sheet liabilities were on a net present value basis, adjustments were made in the budget projections in order to undiscount the cash flows.

2. Provisions for additional financing and the interest expense on the additional financing were assumed in the December version in order to keep FSLIC's investments at a minimum balance of $1 billion. No such assumptions were made in the September 1987 version.

3. Projected estimates for costs related to the resolution of Southwest Plan cases were more detailed and costlier in the December 1988 version than in September 1987 version.

4. The interest rate used to project interest on FSLIC's notes payable in the September 1987 version was a straight 8%. At the time this rate was believed to approximate the rate to be paid on the notes issued as part of the Southwest Plan. In the December 1988 version projected rates on 10 year Treasury notes provided by CBO and subsequently adjusted to reflect the tax-exemptability of FSLIC assistance were used.

5. In the September 1987 version FICO issuances were to be sold gradually over FY's 1988 - 1995. The December 1988 version assumed that the FICO bonds would be sold at the maximum rate allowed under CEBA.

6. In the September 1987 version it was assumed that the special assessment would cease after FY 1995 once the balance of outstanding notes payable reached 0. In the December 1988 version it was assumed that the special assessment would continue through FY 1999.

Notes for Tables I(a), I(c), II(a), II(b), II(e) and II(f)

The following narrative is an explanation of two budget projections produced by FSLIC: the first was released to the Senate Banking Committee in May 1988 and the second was the basis for the FSLIC budget submittal to OMB in December 1988. The version released to the Senate Banking Committee began with FY 1987 and is hereafter referred to as the September 1987 version, and the version released to OMB began with FY 1988 and is hereafter referred to as the December 1988 version. Explanations of differences between the two versions are also provided in the narrative.

Before entering into a line-by-line comparison, two major areas warrant description - case costs in general and the Southwest Plan in particular.

Case Costs

In the September 1987 version projected outlays for new notes payable, assistance payments and upfront cash for FY's 1988 through 1997 were provided by FSLIC's Financial Assistance Division (FAD) who based their estimates on the assumption that the tax-exemptability of FSLIC assistance would be renewed in 1989. Under tax-exemptability, there was an emphasis on assisted solutions as opposed to liquidations.

The December 1988 version's estimates of FSLIC outlays were based upon the projected resolution of 443 cases to be resolved by the end of FY 1992, according to the following schedule:

	FY89	FY90	FY91	FY92	Total
Southwest Plan	97	0	0	0	97
Assisted Solutions	53	85	85	26	249
Liquidations	24	32	31	10	97
Total	174	117	116	36	443

The 443 cases represented all of the GAAP-Insolvent FSLIC insured institutions as of September 30, 1988.

Projected outlays for new notes payable, assistance payments and upfront cash were based on either: projections provided by FAD for cases resolved prior to FY 1989 (these were the remaining cash flows from prior assistance agreements); assumptions for Southwest Plan cases (see below); projections provided from FSLIC's Consolidated Case List with estimates generated by FSLIC's Analysis and Evaluation Division and Mergers and Acquisitions Division; and, for all remaining cases, projections based on the September 30, 1988 estimate of FSLIC's liability for unresolved cases.

Outlays for case costs in the September 1987 version were based on net present value estimates which were not undiscounted in order to provide for the higher cash costs in outlying years. This directly impacts all tables containing September 1987 data in that figures related to promissory notes, assistance payments and upfront cash assistance are present value numbers. Therefore in Table II(a) we did not recompute the present value figures. This was corrected in the December projection by undiscounting the cash flows in the outlying years. A future value discount rate of 9.86% - the yield on the most recent FICO bond offering, was used.

Southwest Plan (SWPlan)

In the September 1987 version, it was assumed that resolution of SWPlan cases would require a total of $7 billion in new notes payable to be issued in FY's 1988 through 1990, plus $5 billion in cash payments for yield maintenance and capital loss coverage for FY's 1988 through 1992.

In the December 1988 version more detailed assumptions were made concerning the projected costs to resolve SWPlan cases. For those SWPlan cases that were solved prior to FY 1989, costs were projected in accordance with case costings provided by FSLIC's Analysis and Evaluation Division (AED). The AED case costings provided figures in a ten year cash flow for the new notes payable, capital losses, yield maintenance costs and return on assistance.

For the 97 cases to be resolved in FY 1989, preliminary case costings provided by the Analysis and Evaluation Division were used when available. For all other cases, September quarterly financial data was used to determine the size of the initial notes payable and capital losses, as well as the yield maintenance costs and return on assistance.

The following descriptions and comparisons follow the line-by-line presentation of the September 1987 and December 1988 projections as provided in Tables I(a) and I(c).

Promissory Notes

The repayment of promissory notes issued prior to FY 1987 in both the September 1987 version and the December 1988 version were scored as budget outlays in the projected year of repayment. New Notes Payable issued in FY 1987 and beyond were scored as budget outlays in the year of issuance.

In the September 1987 version the repayment the Pre-1987 Notes was broken into the subcategories of Case Resolution Notes (Pre-1987) and Capital Certificate Notes: As of October 1, 1987, $1,848 million in Case Resolution Notes were outstanding. For FY's 1988 through 1992 it was assumed that $21.9 million would be paid off in 1988 and that $15 million would be paid off in 1992 with the remaining balance to be paid off evenly in FY's 1993 through 1995. As of October 1, 1987 the balance of Capital Certificate Notes outstanding was $1,279 million. It was assumed that 25% of the remaining balance would be paid off in FY's 1988 through 1992, and that the remaining balance at the end of FY 1992 would be paid off as follows: FY 1993 - 40%; FY 1994 - 30%; and, FY 1995 30% .

The September 1987 version assumed that notes issued in FY's 1987 and beyond would be repaid as FSLIC resources would allow while maintaining a minimum investment balance of $1 billion.

The December 1988 version assumed that Pre-1987 notes and those notes issued in FY's 1987 and 1988 would be paid off in accordance with a maturity schedule provided by FAD. Promissory notes issued in FY's 1989 and beyond were projected to be paid of in full in FY 1999.

Interest on Notes Payable

In both versions the projected yearly interest on notes payable was a function of average notes payable in any one year. Average outstanding notes was determined by adding the balance of notes payable at the beginning of the year with the balance of notes payable at the end of the year and dividing by two.

The September 1987 version used an interest rate of a straight eight percent each year at the time this rate was believed to approximate the rate to be paid on notes issued as part of the Southwest Plan.

The December 1988 version based each year's interest rate upon the Congressional Budget Office's (CBO) predicted interest rates on 10 year Treasury notes for the same year. One hundred basis points was added to the CBO predicted rate and then reduced to reflect the tax-exemptabilty of FSLIC assistance since note holder's would have to refund all or a portion of the tax benefits they receive. These rates were as follows:

FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
8.14%	7.77%	7.19%	6.49%	5.82%	5.36%	5.36%	5.36%	5.36%	5.36%	5.36%

Assistance Agreements

The methodologies used to project case costs and Southwest Plan costs in the September 1987 version and case costs in the December 1988 version, as discussed above, did not lend themselves to the requested breakdowns of assistance agreements into yield maintenance costs and capitol losses. However, the methadolgy used to project Southwest Plan costs in the December version was broken down into yield maintenance costs and those figures are presented in Tables I(c) and II(f).

Assets Acquired from Insured Institutions was included in the line-item Total Assistance Agreements.

The September 1987 version used the FY 1987 actual amount of $53.9 million for Assets Acquired from Insured Institutions and projected this amount to FY 1988 and beyond assuming that purchases of assets from insured institutions would be no greater or no less in the out years than in FY 1987. The December 1988 version shows $235 million in actual purchases in FY 1989 and projects asset acquisitions of $100 million in FY's 1990 and 1991 and 0 in 1993 and beyond, reflecting a reduced caseload.

Miscellaneous Costs

Projections for both the September 1987 version and the December 1988 version for Administrative Expenses, Liquidation and other Non-Administrative Expenses, Assessments by the FHLBB, and Capitalized Furniture Fixtures and Equipment were provided by the FHLBB's Budget Office.

Regular Assessments

Both versions calculated projected regular assessments by assuming that the total deposits in insured institutions would grow by 1.5% per quarter and a regular assessment rate of one-twelfth of one percent of total deposits per year.

Projected regular assessment cash inflows were significantly less in the December 1988 version than in the September 1987 version due primarily to the assumption in the December model that FICO bonds would be sold entirely in FYs 1989 and 1990 rather than spread out and sold gradually from FY 1988 through FY 1995. Selling FICO bonds earlier results in higher interest costs and a subsequent reduction in regular assessments because FICO interest costs are charged against the regular assessment.

Additionally, the interest rate used to project FICO interest costs in the September 1987 version was computed as being one hundred basis points over the 30 year Treasury Bond rate - 9.93% (8.93% + 1%). The interest rate used to project FICO interest costs in the December model was the weighted average coupon rate on issued FICO bonds of 10.01%.

Special Assessments

Both versions calculated yearly special assessment inflows by assuming that total deposits in insured institutions would grow by 1.5% per quarter and a special assessment rate of one-eighth of one percent of total deposits per year.

Projected FSLIC proceeds from the special assessment for FY's 1989-1995 were lower in the December version because actual total deposits in insured institutions at the beginning of FY 1989 were $987.6 billion rather than the $999.7 million amount that was projected in the September 1987 version for the beginning of FY 1989.

Cash inflows from the special assessment to the FSLIC are reduced by repayments of the secondary reserve. The September 1987 version assumed that such repayment would be as follows: FY 1988 - $164.7 million; FY 1989 - $131.8 million; FY 1990 - $105.4 million; FY 1991 - $84.3 million; FY 1992 - $76.5 million; and, FY 1993 - $269.9 million. The December 1988 version assumed repayments of: FY 1989 -$179.5 million; FY 1990 - $110.9 million; FY 1991 - $88.7 million; FY 1992 - $71 million; and, FY 1993 - $284 million.

In the September 1987 version it was assumed that the special assessment would be discontinued after FY 1995 onc the balance of FSLIC's notes payable reached 0. In the December 1988 version it was assumed that the special assessment would continue through FY 1999.

FICO Proceeds

The September 1987 version assumed that FICO bonds would be issued over the period FY's 1988-1995, taking advantage of the lower cost of carry on FSLIC notes than on FICO issuances. The FICO issuances would, inpart, be used to help pay off the FSLIC notes.

The December 1988 version assumed that FICO bonds would be issued at the maximum rate allowed under the Competitive Equality Banking Act of 1987. Special assessments in the out years would be used to pay off FSLIC's notes.

Liquidations of Receiverships.

In the September 1987 version, Liquidation of Receiverships consisted of Liquidation of Subrogated Accounts and Liquidation of Guarantees/Assurances: 1.) Projections for Liquidations of Subrogated Accounts consisted of compiling Receivers' estimates for FY 1988 of $574.5 million and increasing that amount to $650 million because of the difficulty in making such projections and the tendency for Receivers to understate this figure. For FY's 1989-1992, the $650 million amount was increased to $860 million per year to reflect the establishment of more receiverships. 2.) Projections for Liquidations of Guarantees/Assurances were assumed to be $158.9 million for FY's 1989-1992 which was based upon FY 1987 experience. (FY 1988 experience was deemed to be extraordinary).

The December 1988 projections for Liquidation of Receiverships consisted of Liquidation of Subrogated Accounts, Liquidation of Secured Advances Due from Receivers and Liquidations of Loans to Receivers: 1.) Yearly projections for Liquidations of Subrogated Accounts in FY's 1989 through 1992 were derived by projecting that liquidating dividends would be 20% of subrogated account claims at the end of the previous year (assuming the average life of receivership to be 5 years). The balance of subrogated account claims at the end of year was computed by starting with the balance of subrogated accounts at the beginning of a fiscal year, adding new projected subrogated accounts claims for the fiscal year, and reducing those new subrogated accounts claims by an allowance for loss of 52%. Because of the assumed cessation of liquidations in 1992, it was further assumed that in FY 1993, 20% of the claims remaining at the end of FY 1992 would be repaid; in FY 1994, 40% of the claims remaining at the end of FY 1993 would be repaid; in FY 1995, 60% of the claims remaining at the end of FY 1994 would be repaid; in FY 1996, 80% of the claims remaining at the end of FY 1995; and, in FY 1997, 100% of the claims remaining. A further adjustment was made by assuming that for FY's 1989 through 1997 all outstanding Subrogated Claims at the beginning of a year would appreciate in value by 4%. This adjustment was based on an appreciation that would normally occur due to nominal inflation.

2.) For FY's 1989 through 1992 it was assumed that 25% of all Secured Advances outstanding at the beginning of a year would be repaid to FSLIC. This assumption was based on the average five year life span of liquidating receiverships and the priority status of Secured Advance claims. Because of the assumed cessation of liquidations in FY 1992, it was further assumed that in FY 1993, 25% of the claims remaining at the end of FY 1992 would be repaid; in FY 1994, 50% of claims remaining; in FY 1995, 75% of remaining claims; and,in FY 1996, 100% of remaining claims.

3.) It was assumed that 25% of all outstanding Loans to Receivers at the beginning of each fiscal year would be repaid to the FSLIC in FY's 1989 through 1992. Based on the average five year life of a receivership and their priority status. Because of the assumed cessation of liquidations in FY 1992, it was further assumed in FY 1993 that 25% of outstanding loans would be repaid; in FY 1994, 50% of outstanding loans; in FY 1995, 75%; and, in FY 1996, 100%.

Interest Income

This line-item includes Interest on Securities, Interest from Assets Acquired, Interest on Loans and Interest on Receivership Claims. Each category determined interest income by first determining an average balance for that year and then multiplying the average balance by an interest rate.

In the September version the following interest rates provided by FSLIC's Analysis and Evaluation Division were used to project interest and income earned

FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97
6.77%	7.39%	7.63%	7.63%	7.91%	7.91%	7.91%	7.91%	7.91%	8.39%

In the December 1988 version the following projected rates on 52 week Treasury Bills provided by CBO were used to project interest or income earned:

FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
7.40%	7.28%	6.93%	6.68%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%

A. Interest on Securities

Both versions determined interest earned on FSLIC's investments in a similar fashion by multiplying average investments for any given year by the interest rate for that year. Average investments were determined by multiplying investments at the beginning of a period by two, adding to this the product all cash flows exclusive of interest on securities and dividing the sum by two. In the December 1988 version there was a calculating error imbedded within the computer model that led to an understatement of interest earned on FSLIC's investments.

B. Income From Assets Acquired

Both versions determined average assets and income from those for a particular period in the same manner.

C. Interest on Loans

Again, both versions determined average loans for a particular period and interset on those loans using the same methodology.

D. Interest on Receivership Claims

The September 1987 version calculated projected yearly Interest on Receivership Claims (Interest on Guarantees/Assurances) as a function of average guarantees/assurances held in any one year multiplied by that year's interest rate.

The December 1988 version calculated Interest on Receivership Claims as the sum of interest earned on Secured Advances Due from Receivers and on Loans to Receivers. Yearly interest earned was a function of the average balances for Secured Advances Due From Receivers and for Loans to Receivers multiplied by that year's interest rate. Because not all secured advances pay interest, the average balance for Secured Advances Due from Receivers was divided by two.

Other Income

This line item includes Capital Certificate Income, Miscellaneous Income, Liquidation of Loans and Liquidation of Assets Acquired.

A. Capital Certificate Income

The September 1987 version calculated projected Capital Certificate Income for FY 1988 by averaging actual Capital Certificate Income received in FY 1986 - $29.6 million and FY 1987 - $47.6 million, totaling $38.6 million; increased the average to $44 million to reflect a growing trend and projected this figure to FY's 1989 and beyond.

The December 1988 version projected the FY 1988 actual for Capital Certificate Income of $69.6 million to FY's 1989 and beyond.

B. Miscellaneous Income

The September 1987 version calculated projected miscellaneous income for FY's 1988 and beyond by assuming an increase of 5% per year over the actual FY 1987 Miscellaneous Income figure of $99.4 million, which was presented as Other Income on FSLIC's Income Statement. (The FY 1987 actual figure for Other Income was subsequently adjusted to $89.9 million)

The December 1988 version projected Miscellaneous Income for FY 1989 and beyond by assuming an increase of 5% per year on the actual FY 1988 figure. However, both Other Income and Gain on the Transfer of Accounts as presented on FSLIC's Income Statement of $114 million and $42.2 million respectively, were used to calculate actual FY 1988 Miscellaneous Income. (The actual FY 1988 figure for Other Income was subsequently adjusted to $92.1 million)

C. Liquidation of Loans

The September 1987 version projected that $57.3 million in loans would be liquidated for FY's 1988 through 1990 with the remaining balance of $36.7 million being paid off in FY 1991. The $57.3 million represented projected loan repayments prepared by FSLIC's Financial Assistance Division for FY 1988.

The December 1988 version projected that $8.8 million in loans would be repaid in FY's 1989 through FY 1992 with 25% ($61.7 million) of the outstanding balance remaining at the end of FY 1993 being repaid in FY's 1994 through 1997. The $8.8 million represented projected loan repayments prepared by FSLIC's Financial Assistance Division for FY 1989.

D. Liquidation of Assets Acquired

After determining that 12.9% of FSLIC's total corporate-held assets were liquidated in FY 1987, the September 1987 version projected that 12.9% of the assets remaining at the end of each year would be liquidated for FY 1988 and beyond.

The December 1988 version, after determining that 14% of FSLIC's corporate-held real estate was liquidated in FY 1988, projected that 14% of the balance of corporate-held real estate would be liquidated in FY's 1989 through 1993. Liquidations in FY's 1994 through 1997 were projected as 25% of the total amount of real estate remaining at the end of FY 1993. It was also projected that there would be $235 million of new corporate-held real estate purchased in FY 1989 and $100 million in each of FY's 1990 and 1991. Additionally, $300 million in corprate-held mortgage loans were acquired by the FSLIC in FY 1989 and it was assumed they would experience prepayment at the rate of 10% per year for FY 1989 and beyond. (It was assumed that FSLIC would not sell the mortgage loans).

Additional Financing

In the December 1988 version assumptions for additional financing were made in order to keep FSLIC's investments at a minimum balance of $1 billion. The interest on this additional financing was projected to be 30 basis points over the projected 10 year Treasury rates provided by CBO. The 30 basis spread was assumed to reflect the premium that the Federal Home Loan Banks pay on their debt. The interest on this additional financing was included under the line item Miscellaneous Costs - Other on Table I(c). No such assumptions for additional financing were provided in the September 1987 version.

TABLE II. FSLIC COMMITMENTS

TABLE II(a): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN NET PRESENT VALUE) $MILLIONS

PRESENT VALUE DISCOUNT RATE: 10.09%

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
				PROMISSORY AND OTHER NOTES					
PRINCIPAL									
Newly issued									
Mergers/Acquisitions	----		14,431.0						
Deposit Transfers	----		0.0						
Depositor Payouts	----		0.0						
Cap. Certif. Notes	----		0.0						
Total			14,431.0						
Retired									
Mergers/Acquisitions	----		15,525.0						
Deposit Transfers	----		851.7						
Depositor Payouts	----		0.0						
Cap. Certif. Notes	----		1,279.6						
Total			17,656.3						
Net for Year	----		(3,225.3)						
Net Estimating Changes	----		0.0						
Total outstanding (EOY) --			N/M						
INTEREST									
New commitments									
Mergers/Acquisitions	----		3,358.5						
Deposit Transfers	----		0.0						
Depositor Payouts	----		0.0						
Cap. Certif. Notes	----		0.0						
(Discount)	----		0.0						
Total			3,358.5						
Paid out									
Mergers/Acquisitions	----		3,868.2						
Deposit Transfers	----		442.1						
Depositor Payouts	----		0.0						
Cap. Certif. Notes	----		307.5						
Total			4,617.8						
Net for year	----		(1,259.3)						
Net Estimating Changes	----		583.5						
Total outstanding (EOY) --			N/M						
OUTSTANDING NOTE COMMITMENTS			N/M						
				ASSISTANCE AGREEMENTS					
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers/Acquisitions	----		N/A						
Deposit Transfers	----		N/A						
Depositor Payouts	----		N/A						
(Gain sharing)	----		N/A						
Paid out									
Mergers/Acquisitions	----		N/A						
Deposit Transfers	----		N/A						
Depositor Payouts	----		N/A						
Net for year	----		N/A						
Net Estimating Changes	----		N/A						
Total outstanding (EOY) --			N/M						

N/A = NOT AVAILABLE
N/M = NOT MEANINGFUL

TABLE II(a): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN NET PRESENT VALUE)

PRESENT VALUE DISCOUNT RATE: 10.09%

		FY1988
CAPITAL LOSS AGREEMENTS		
Newly issued		
Mergers/Acquisitions	----	N/A
Deposit Transfers	----	N/A
Depositor Payouts	----	N/A
(Gain sharing)	----	N/A
Paid out		
Mergers/Acquisitions	----	N/A
Deposit Transfers	----	N/A
Depositor Payouts	----	N/A
Net for year	----	N/A
Net Estimating Changes	----	N/A
Total outstanding (EOY) --		N/M
INDEMNIFICATION AGREEMENTS		
Newly issued		
Mergers/Acquisitions	----	N/A
Deposit Transfers	----	N/A
Depositor Payouts	----	N/A
Paid out		
Mergers/Acquisitions	----	N/A
Deposit Transfers	----	N/A
Depositor Payouts	----	N/A
Net for year	----	N/A
Net Estimating Changes	----	N/A
Total outstanding (EOY) --		N/M
OUTSTANDING ASSISTANCE COMMITMENTS		N/M
		OTHER COMMITMENTS
OTHER COMMITMENTS		
Total commitments		
New commitments	----	0.0
Paid out	----	0.0
Net for year	----	0.0
Net Estimating Changes	----	0.0
Total outstanding (EOY) --		0.0
OTHER COMMITMENTS		0.0
		TOTAL END-OF-YEAR COMMITMENTS
TOTAL -- ALL COMMITMENTS (EOY)		N/M

N/A = NOT AVAILABLE
N/M = NOT MEANINGFUL

TABLE II(b): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN CASH BASIS VALUE) $ MILLIONS

	PRE-1987	ACTUAL FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY AND OTHER NOTES									
PRINCIPAL									
Newly issued									
Mergers/Acquisitions	----		6,267.0	3,478.0	1,749.0	1,754.0	1,183.0	0.0	0.0
Deposit Transfers	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depositor Payouts	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total		1,204.7	6,267.0	3,478.0	1,749.0	1,754.0	1,183.0	0.0	0.0
Retired									
Mergers/Acquisitions	----		420.1	2,150.0	2,150.0	1,300.0	1,315.0	2,520.4	3,120.4
Deposit Transfers	----		1.8	0.0	0.0	0.0	0.0	283.3	283.3
Depositor Payouts	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----		319.9	239.9	179.9	135.0	101.2	121.5	91.1
Total		1,106.0	741.8	2,389.9	2,329.9	1,435.0	1,416.2	2,925.2	3,494.8
Net for Year	----	98.7	5,525.2	1,088.1	(580.9)	319.0	(233.2)	(2,925.2)	(3,494.8)
Net Estimating Changes	----	N/A							
Total outstanding (EOY) --	3,126.5	3,225.2	8,750.4	9,838.5	9,257.6	9,576.6	9,343.4	6,418.2	2,923.4
INTEREST									
New commitments									
Mergers/Acquisitions	----		944.7	1,065.6	559.7	504.6	283.9	0.0	0.0
Deposit Transfers	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depositor Payouts	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Total		96.0	944.7	1,065.6	559.7	504.6	283.9	0.0	0.0
Paid out									
Mergers/Acquisitions	----		321.3	608.4	645.5	647.6	660.4	554.3	328.7
Deposit Transfers	----		68.1	68.0	68.0	68.0	68.0	56.7	34.0
Depositor Payouts	----		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----		89.6	67.2	50.4	37.8	28.4	19.5	11.0
Total		308.6	479.0	743.6	763.9	753.4	756.8	630.5	373.7
Net for year	----	(212.6)	465.7	322.0	(204.2)	(248.8)	(472.9)	(630.5)	(373.7)
Net Estimating Changes	----		583.5						
Total outstanding (EOY) --	888.4	675.8	1,725.0	2,047.0	1,842.8	1,594.0	1,121.1	490.6	116.9
OUTSTANDING NOTE COMMITMENTS	4,014.9	3,901.0	10,475.4	11,885.5	11,100.4	11,170.6	10,464.5	6,908.8	3,040.3
ASSISTANCE AGREEMENTS									
YIELD MAINTENANCE AGREEMENTS									
Newly issued									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A = NOT AVAILABLE
NOTE: FIGURES FOR PROJECTED PRINCIPAL AND INTEREST ARE PRESENT VALUE NUMBERS.

TABLE II(b): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN CASH BASIS VALUE) $ MILLIONS

	PRE-1987	ACTUAL FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
CAPITAL LOSS AGREEMENTS									
Newly issued									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
(Gain sharing)	----	( )	( )	( )	( )	( )	( )	( )	( )
Paid out									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
INDEMNIFICATION AGREEMENTS									
Newly issued									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Paid out									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OUTSTANDING ASSISTANCE COMMITMENTS		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
				OTHER COMMITMENTS					
OTHER COMMITMENTS									
Total commitments									
New commitments	----								
Paid out	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --									
OTHER COMMITMENTS		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					TOTAL END-OF-YEAR COMMITMENTS				
TOTAL -- ALL COMMITMENTS (EOY)		3,901.0	10,475.4	11,885.5	11,100.4	11,170.6	10,464.5	6,908.8	3,040.3

N/A = NOT AVAILABLE

TABLE II(b): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN CASH BASIS VALUE) $ MILLIONS

	FY1995	FY1996	FY1997
	PROMISSORY AND OTHER NOTES		
PRINCIPAL			
Newly issued			
Mergers/Acquisitions	0.0	0.0	0.0
Deposit Transfers	0.0	0.0	0.0
Depositor Payouts	0.0	0.0	0.0
Cap. Certif. Notes	0.0	0.0	0.0
Total	0.0	0.0	0.0
Retired			
Mergers/Acquisitions	2,549.1	0.0	0.0
Deposit Transfers	283.3	0.0	0.0
Depositor Payouts	0.0	0.0	0.0
Cap. Certif. Notes	91.1	0.0	0.0
Total	2,923.5	0.0	0.0
Net for Year	(2,923.5)	0.0	0.0
Net Estimating Changes			
Total outstanding (EOY) --	0.0	0.0	0.0
INTEREST			
New commitments			
Mergers/Acquisitions	0.0	0.0	0.0
Deposit Transfers	0.0	0.0	0.0
Depositor Payouts	0.0	0.0	0.0
Cap. Certif. Notes	0.0	0.0	0.0
(Discount)	( )	( )	( )
Total	0.0	0.0	0.0
Paid out			
Mergers/Acquisitions	102.0	0.0	0.0
Deposit Transfers	11.3	0.0	0.0
Depositor Payouts	0.0	0.0	0.0
Cap. Certif. Notes	3.6	0.0	0.0
Total	116.9	0.0	0.0
Net for year	(116.9)	0.0	0.0
Net Estimating Changes			
Total outstanding (EOY) --	(0.0)	(0.0)	(0.0)
OUTSTANDING NOTE COMMITMENTS	(0.0)	(0.0)	(0.0)
	ASSISTANCE AGREEMENTS		
YIELD MAINTENANCE AGREEMENTS			
Newly issued			
Mergers/Acquisitions			
Deposit Transfers			
Depositor Payouts			
(Gain sharing)	( )	( )	( )
Paid out			
Mergers/Acquisitions			
Deposit Transfers			
Depositor Payouts			
Net for year			
Net Estimating Changes			
Total outstanding (EOY) --	N/A	N/A	N/A

N/A = NOT AVAILABLE

TABLE II(b): FSLIC COMMITMENTS (AS OF SEPTEMBER 30, 1987, IN CASH BASIS VALUE) $ MILLIONS

	FY1995	FY1996	FY1997
CAPITAL LOSS AGREEMENTS			
Newly issued			
Mergers/Acquisitions			
Deposit Transfers			
Depositor Payouts			
(Gain sharing)	( )	( )	( )
Paid out			
Mergers/Acquisitions			
Deposit Transfers			
Depositor Payouts			
Net for year			
Net Estimating Changes			
Total outstanding (EOY) --	N/A	N/A	N/A
INDEMNIFICATION AGREEMENTS			
Newly issued			
Mergers/Acquisitions			
Deposit Transfers			
Depositor Payouts			
Paid out			
Mergers/Acquisitions			
Deposit Transfers			
Depositor Payouts			
Net for year			
Net Estimating Changes			
Total outstanding (EOY) --	N/A	N/A	N/A
OUTSTANDING ASSISTANCE COMMITMENTS	N/A	N/A	N/A
	OTHER COMMITMENTS		
OTHER COMMITMENTS			
Total commitments			
New commitments			
Paid out			
Net for year			
Net Estimating Changes			
Total outstanding (EOY) --			
OTHER COMMITMENTS	0.0	0.0	0.0
	TOTAL END-OF-YEAR COMMITMENTS		
TOTAL -- ALL COMMITMENTS (EOY)	(0.0)	(0.0)	(0.0)

N/A = NOT AVAILABLE

TABLE II(e): FSLIC COMMITMENTS (AS OF CURRENT FSLIC ESTIMATES, IN NET PRESENT VALUE) $MILLIONS

PRESENT VALUE DISCOUNT RATE: 10.09%

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
				PROMISSORY AND OTHER NOTES					
PRINCIPAL									
Newly issued									
Mergers/Acquisitions	----			11,142.6					
Deposit Transfers	----			3,034.9					
Depositor Payouts	----			0.0					
Cap. Certif. Notes	----			0.0					
Total				14,177.5					
Retired									
Mergers/Acquisitions	----			9,453.7					
Deposit Transfers	----			1,483.7					
Depositor Payouts	----			0.0					
Cap. Certif. Notes	----			721.4					
Total				11,658.8					
Net for Year	----			2,518.8					
Net Estimating Changes	----			0.0					
Total outstanding (EOY) --				N/M					
INTEREST									
New commitments									
Mergers/Acquisitions	----			6,555.2					
Deposit Transfers	----			1,701.5					
Depositor Payouts	----			0.0					
Cap. Certif. Notes	----			0.0					
(Discount)	----			0.0					
Total				8,256.7					
Paid out									
Mergers/Acquisitions	----			8,129.1					
Deposit Transfers	----			1,212.3					
Depositor Payouts	----			0.0					
Cap. Certif. Notes	----			186.5					
Total				9,528.0					
Net for year	----			(1,271.2)					
Net Estimating Changes	----			0.0					
Total outstanding (EOY) --				N/M					
OUTSTANDING NOTE COMMITMENTS				N/M					
				ASSISTANCE AGREEMENTS					
YIELD MAINTENANCE AGREEMENTS (SOUTHWEST PLAN ONLY)									
Newly issued									
Mergers/Acquisitions	----			11,166.6					
Return on Assistance	----			(527.4)					
Paid out									
Mergers/Acquisitions	----			15,077.3					
Return on Assistance				(449.9)					
Net for year				(3,988.1)					
Net Estimating Changes	----			0.0					
Total outstanding (EOY) --				N/M					

N/A = NOT AVAILABLE
N/M = NOT MEANINGFUL

NOTE: THE "CURRENT ESTIMATES" ON TABLES I, II AND III ARE BASED ON DECEMBER, 1988 PROJECTIONS THAT, IN TURN, WERE BASED ON SEPTEMBER, 1988 INDUSTRY FINANCIAL DATA.

TABLE II(e): FSLIC COMMITMENTS (AS OF CURRENT FSLIC ESTIMATES, IN NET PRESENT VALUE) $MILLIONS

PRESENT VALUE DISCOUNT RATE: 10.09%

	PRE-1987	FY1987	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
CAPITAL LOSS AGREEMENTS (SOUTHWEST PLAN ONLY)									
Newly issued									
Mergers/Acquisitions				6,548.2					
(Gain sharing)				0.0					
Paid out									
Mergers/Acquisitions				5,021.4					
Net for year				1,526.7					
Net Estimating Changes				0.0					
Total outstanding (EOY) --				N/M					
INDEMNIFICATION AGREEMENTS (SOUTHWEST PLAN ONLY)									
Newly issued									
Mergers/Acquisitions	----			N/A					
Deposit Transfers	----			N/A					
Depositor Payouts	----			N/A					
Paid out									
Mergers/Acquisitions	----			N/A					
Deposit Transfers	----			N/A					
Depositor Payouts	----			N/A					
Net for year	----			N/A					
Net Estimating Changes	----			N/A					
Total outstanding (EOY) --				N/M					
OTHER ASSISTANCE AGREEMENTS									
Newly issued									
Merners/Acquisitions				11,981.9					
(Gain sharing)				0.0					
Paid out									
Mergers/Acquisitions				11,566.0					
Net for year				415.9					
Net Estimating Changes				0.0					
Total outstanding (EOY) --				N/M					
				OTHER COMMITMENTS					
OTHER COMMITMENTS									
Total commitments									
New commitments	----			0.0					
Paid out	----			0.0					
Net for year	----			0.0					
Net Estimating Changes	----			0.0					
Total outstanding (EOY) --				N/M					
OTHER COMMITMENTS				0.0					
				TOTAL END-OF-YEAR COMMITMENTS					
TOTAL -- ALL COMMITMENTS (EOY)				N/M					

N/A = NOT AVAILABLE
N/M = NOT MEANINGFUL

TABLE II(f): FSLIC COMMITMENTS (AS OF CURRENT ESTIMATES, IN CASH BASIS VALUE) $MILLIONS

	PRE-1987	ACTUAL FY1987	ACTUAL FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994
PROMISSORY AND OTHER NOTES									
PRINCIPAL									
Newly issued									
Mergers/Acquisitions	----			9,596.3	1,331.8	1,072.9	0.0	0.0	0.0
Deposit Transfers	----			1,770.2	984.0	630.6	0.0	0.0	0.0
Depositor Payouts	----			0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----			0.0	0.0	0.0	0.0	0.0	0.0
Total		1,204.7	9,781.2	11,366.5	2,315.8	1,703.5	0.0	0.0	0.0
Retired									
Mergers/Acquisitions	----			30.5	22.6	1,261.0	22.6	1,514.2	14.0
Deposit Transfers	----			0.0	0.0	318.0	0.0	0.0	0.0
Depositor Payouts	----			0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----			0.0	14.9	719.0	26.8	170.8	0.0
Total		1,106.0	96.4	30.5	37.5	2,298.0	49.4	1,685.0	14.0
Net for Year	----	98.7	9,684.8	11,336.0	2,278.3	(594.5)	(49.4)	(1,685.0)	(14.0)
Net Estimating Changes	----		(1,199.0)						
Total outstanding (EOY) --	3,126.5	3,225.2	11,711.0	23,047.0	25,325.3	24,730.8	24,681.4	22,996.4	22,982.4
INTEREST									
New commitments									
Mergers/Acquisitions	----			5,836.7	704.1	486.9	0.0	0.0	0.0
Deposit Transfers	----			1,076.6	520.2	286.2	0.0	0.0	0.0
Depositor Payouts	----			0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----			0.0	0.0	0.0	0.0	0.0	0.0
(Discount)	----	( )	( )	( )	( )	( )	( )	( )	( )
Total		96.0	6,833.2	6,913.3	1,224.3	773.1	0.0	0.0	0.0
Paid out									
Mergers/Acquisitions	----			1,238.8	1,604.8	1,525.5	1,369.9	1,183.9	1,049.4
Deposit Transfers	----			97.9	200.4	232.1	219.7	197.0	181.4
Depositor Payouts	----			0.0	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	----			78.0	73.9	42.0	13.7	6.5	1.4
Total		308.6	290.5	1,414.7	1,879.1	1,799.6	1,603.3	1,387.4	1,232.2
Net for year	----	(212.6)	6,542.7	5,498.6	(654.8)	(1,026.5)	(1,603.3)	(1,387.4)	(1,232.2)
Net Estimating Changes	----		(1,673.0)						
Total outstanding (EOY) --	888.4	675.8	5,545.5	11,044.1	10,389.3	9,362.8	7,759.5	6,372.1	5,139.9
OUTSTANDING NOTE COMMITMENTS	4,014.9	3,901.0	17,256.5	34,091.1	35,714.6	34,093.6	32,440.9	29,368.5	28,122.3
ASSISTANCE AGREEMENTS									
YIELD MAINTENANCE AGREEMENTS (SOUTHWEST PLAN ONLY)									
Newly issued									
Mergers/Acquisitions	----	0.0	9,564.0	11,716.4					
Return on Assistance	----	0.0	(257.2)	(553.3)					
Paid out									
Mergers/Acquisitions	----	0.0	0.0	3,189.0	3,318.8	2,995.7	2,649.2	2,229.8	1,891.8
Return on Assistance		0.0	0.0	(34.8)	(22.0)	(71.7)	(71.6)	(71.4)	(68.2)
		-------	--------	--------	--------	--------	-------	-------	-------
Net for year		0.0	9,306.7	8,009.0	(3,296.8)	(2,924.0)	(2,577.6)	(2,158.4)	(1,823.7)
Net Estimating Changes	----								
Total outstanding (EOY) --		0.0	9,306.7	17,315.7	14,018.9	11,094.8	8,517.2	6,358.8	4,535.2

N/A = NOT AVAILABLE

TABLE II(f): FSLIC COMMITMENTS (AS OF CURRENT ESTIMATES, IN CASH BASIS VALUE) $MILLIONS

	PRE-1987	ACTUAL FY1987	ACTUAL FY1988	FY1989	FY1990	FY1991	FY1992	FY1993	FY[illegible]
CAPITAL LOSS AGREEMENTS (SOUTHWEST PLAN ONLY)									
Newly issued									
Mergers/Acquisitions		0.0	5,969.2	6,870.6	0.0	0.0	0.0	0.0	0.0
(Gain sharing)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paid out									
Mergers/Acquisitions		0.0	0.0	57.6	26.0	26.0	65.5	75.7	75.7
Net for year		0.0	5,969.2	6,813.0	(26.0)	(26.0)	(65.5)	(75.7)	(75.7)
Net Estimating Changes									
Total outstanding (EOY) --		0.0	5,969.2	12,782.2	12,756.2	12,730.2	12,664.6	12,589.0	12,513.3
INDEMNIFICATION AGREEMENTS (SOUTHWEST PLAN ONLY)									
Newly issued									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Paid out									
Mergers/Acquisitions	----								
Deposit Transfers	----								
Depositor Payouts	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OTHER ASSISTANCE AGREEMENTS (INCLUDES UPFRONT CASH)									
Newly issued									
Mergers/Acquisitions		N/A	N/A	6,886.1	3,580.7	2,949.2			
(Gain sharing)									
Paid out									
Mergers/Acquisitions		77.7	675.2	3,450.5	2,444.0	3,146.1	2,280.2	1,642.1	969.2
Net for year		N/A	N/A	3,435.6	1,136.7	(196.9)	(2,280.2)	(1,642.1)	(969.2)
Net Estimating Changes									
Total outstanding (EOY) --			1,377.1	4,812.7	5,949.4	5,752.4	3,472.2	1,830.1	860.9
OTHER COMMITMENTS									
OTHER COMMITMENTS									
Total commitments									
New commitments	----								
Paid out	----								
Net for year	----								
Net Estimating Changes	----								
Total outstanding (EOY) --	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER COMMITMENTS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL END-OF-YEAR COMMITMENTS									
TOTAL -- ALL COMMITMENTS (EOY)	4,014.9	3,901.0	33,909.5	69,001.7	68,439.0	63,671.0	57,094.9	50,146.4	46,031.7

N/A = NOT AVAILABLE

TABLE II(f): FSLIC COMMITMENTS (AS OF CURRENT ESTIMATES, IN CASH BASIS VALUE) $MILLIONS

	FY1995	FY1996	FY1997	FY1998	FY1999
PRINCIPAL					
Newly issued					
Mergers/Acquisitions	0.0	0.0	0.0	0.0	0.0
Deposit Transfers	0.0	0.0	0.0	0.0	0.0
Depositor Payouts	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0
Retired					
Mergers/Acquisitions	32.0	14.0	0.0	7,252.5	12,272.1
Deposit Transfers	0.0	0.0	0.0	0.0	3,384.8
Depositor Payouts	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	18.0	2.0	0.0	0.0	7.0
Total	50.0	16.0	0.0	7,252.5	15,663.9
Net for Year	(50.0)	(16.0)	0.0	(7,252.5)	(15,663.9)
Net Estimating Changes					
Total outstanding (EOY) --	22,932.4	22,916.4	22,916.4	15,663.9	(0.0)
INTEREST					
New commitments					
Mergers/Acquisitions	0.0	0.0	0.0	0.0	0.0
Deposit Transfers	0.0	0.0	0.0	0.0	0.0
Depositor Payouts	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	0.0	0.0	0.0	0.0	0.0
(Discount)	( )	( )	( )	( )	( )
Total	0.0	0.0	0.0	0.0	0.0
Paid out					
Mergers/Acquisitions	1,048.2	1,046.9	1,046.6	852.2	329.0
Deposit Transfers	181.4	181.4	181.4	181.4	90.7
Depositor Payouts	0.0	0.0	0.0	0.0	0.0
Cap. Certif. Notes	0.6	0.1	0.0	0.0	0.0
Total	1,230.2	1,228.4	1,228.0	1,033.6	419.7
Net for year	(1,230.2)	(1,228.4)	(1,228.0)	(1,033.6)	(419.7)
Net Estimating Changes					
Total outstanding (EOY) --	3,909.7	2,681.3	1,453.3	419.7	0.0
OUTSTANDING NOTE COMMITMENTS	26,842.1	25,597.7	24,369.7	16,083.6	(0.0)

ASSISTANCE AGREEMENTS

	FY1995	FY1996	FY1997	FY1998	FY1999
YIELD MAINTENANCE AGREEMENTS (SOUTHWEST PLAN ONLY)					
Newly issued					
Mergers/Acquisitions					
(Gain sharing)					
Paid out					
Mergers/Acquisitions	1,480.4	1,239.7	1,127.4	1,069.9	88.7
Return on Assistance	(66.3)	(63.1)	(11.5)	(330.1)	0.0
	-------	--------	--------	--------	--------
Net for year	(1,414.2)	(1,176.6)	(1,115.9)	(739.8)	(88.7)
Net Estimating Changes					
Total outstanding (EOY) --	3,121.0	1,944.4	828.5	88.7	(0.0)

N/A = NOT AVAILABLE

TABLE II(f): FSLIC COMMITMENTS (AS OF CURRENT ESTIMATES, IN CASH BASIS VALUE) $MILLIONS

	FY1995	FY1996	FY1997	FY1998	FY1999
CAPITAL LOSS AGREEMENTS (SOUTHWEST PLAN ONLY)					
Newly issued					
Mergers/Acquisitions	0.0	0.0	0.0	0.0	0.0
(Gain sharing)	0.0	0.0	0.0	0.0	0.0
Paid out					
Mergers/Acquisitions	75.7	56.8	0.0	5,510.3	6,870.6
Net for year	(75.7)	(56.8)	0.0	(5,510.3)	(6,870.6)
Net Estimating Changes	----				
Total outstanding (EOY) --	12,437.6	12,380.9	12,380.9	6,870.6	(0.0)
INDEMNIFICATION AGREEMENTS (SOUTHWEST PLAN ONLY)					
Newly issued					
Mergers/Acquisitions	----				
Deposit Transfers	----				
Depositor Payouts	----				
Paid out					
Mergers/Acquisitions	----				
Deposit Transfers	----				
Depositor Payouts	----				
Net for year	----				
Net Estimating Changes	----				
Total outstanding (EOY) --	N/A	N/A	N/A	N/A	N/A
OTHER ASSISTANCE AGREEMENTS					
Newly issued					
Mergers/Acquisitions					
(Gain sharing)					
Paid out					
Mergers/Acquisitions	403.4	202.5	135.0	120.0	0.0
Net for year	(403.4)	(202.5)	(135.0)	(120.0)	0.0
Net Estimating Changes					
Total outstanding (EOY) --	457.5	255.0	120.0	0.0	0.0
		OTHER COMMITMENTS			
OTHER COMMITMENTS					
Total commitments					
New commitments	----				
Paid out	----				
Net for year	----				
Net Estimating Changes	----				
Total outstanding (EOY) --	0.0	0.0	0.0	0.0	0.0
OTHER COMMITMENTS	0.0	0.0	0.0	0.0	0.0
		TOTAL END-OF-YEAR COMMITMENTS			
TOTAL -- ALL COMMITMENTS (EOY)	42,858.2	40,177.9	37,699.0	23,042.9	(0.0)

N/A = NOT AVAILABLE

TABLE III. FSLIC COMMITMENTS AND PAYMENTS

TABLE III(a): FLSIC COMMITMENTS AND PAYMENTS - NOTE OBLIGATIONS $MILLIONS

YR NOTES ISSUED	AMOUNT	ACTUAL 1987	ACTUAL 1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
PRE-1987	3,126.5	1,197.2	15.1	21.9	14.9	1,617.7	26.8	206.8	0.0	18.0	2.0	0.0	0.0	6.1
1987	1,204.7	1,107.8	0.0	8.6	22.6	64.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9
1988	9,781.2		81.3	0.0	0.0	615.5	22.6	1,478.2	14.0	32.0	14.0	0.0	7,252.5	271.1
1989	11,366.5			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11,366.5
1990	2,315.8				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,315.8
1991	1,703.5					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,703.5
1992	0.0						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1993	0.0							0.0	0.0	0.0	0.0	0.0	0.0	0.0
1994	0.0								0.0	0.0	0.0	0.0	0.0	0.0

NOTE: THE "CURRENT ESTIMATES" ON TABLES I, II AND III ARE BASED ON DECEMBER, 1988 PROJECTIONS THAT, IN TURN, WERE BASED ON SEPTEMBER, 1988 INDUSTRY FINANCIAL DATA.

TABLE III(b): FSLIC COMMITMENTS AND PAYMENTS - YIELD MAINTENANCE AGREEMENTS $MILLIONS

(SOUTHWEST PLAN ONLY)

PRESENT VALUE DISCOUNT RATE: 10.09% PRESENT VALUE AT BEGINNING OF FY89

			ACTUAL	ACTUAL										
YR NOTES ISSUED	PV	CASH	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
PRE-1987	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1987	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1988	6,582.7	9,306.8		0.0	1,489.4	1,396.0	1,260.8	1,104.5	935.7	832.2	633.0	589.9	579.7	485.7
1989	8,044.8	11,163.1			1,664.7	1,900.9	1,663.3	1,473.1	1,222.7	991.4	781.2	586.9	536.1	254.1
1990	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1991	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1992	0.0	0.0						0.0	0.0	0.0	0.0	0.0	0.0	0.0
1993	0.0	0.0							0.0	0.0	0.0	0.0	0.0	0.0
1994	0.0	0.0								0.0	0.0	0.0	0.0	0.0

TABLE III(c): FSLIC COMMITMENTS AND PAYMENTS - CAPITAL LOSS GUARANTEES $MILLIONS

(SOUTHWEST PLAN ONLY)

PRESENT VALUE DISCOUNT RATE: 10.09% PRESENT VALUE AT BEGINNING OF FY89

YR NOTES ISSUED	PV	CASH	ACTUAL 1987	ACTUAL 1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
PRE-1987	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1987	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1988	2,517.4	5,969.2		0.0	57.6	26.0	26.0	65.5	75.7	75.7	75.7	56.8	0.0	5,510.3
1989	2,504.0	6,870.6			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1990	0.0					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1991	0.0						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1992	0.0							0.0	0.0	0.0	0.0	0.0	0.0	0.0
1993	0.0								0.0	0.0	0.0	0.0	0.0	0.0
1994	0.0									0.0	0.0	0.0	0.0	0.0

TABLE III(d): FSLIC COMMITMENTS AND PAYMENTS - INDEMNIFICATION AGREEMENTS $MILLIONS

YR NOTES ISSUED	PV	CASH	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
PRE-1987															
1987															
1988															
1989			SPECIFIC INFORMATION ON INDEMNIFICATION AGREEMENTS IS NOT AVAILABLE												
1990															
1991															
1992															
1993															
1994															

TABLE III(e): FSLIC COMMITMENTS AND PAYMENTS - OTHER AGREEMENTS $MILLIONS

YR NOTES ISSUED	PV	CASH	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
PRE-1987															
1987															
1988															
1989		FSLIC HAS NO OTHER COMMITMENTS REGARDING CASE RESOLUTION COSTS													
1990		SEE TABLE III(f) FOR OTHER ASSISTANCE AGREEMENTS													
1991															
1992															
1993															
1994															

TABLE III(f): FSLIC COMMITMENTS AND PAYMENTS - OTHER ASSISTANCE AGREEMENTS $MILLIONS

PRESENT VALUE DISCOUNT RATE: 10.09% PRESENT VALUE AT BEGINNING OF FY89

YR NOTES ISSUED	PV	CASH	ACTUAL 1987	ACTUAL 1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
PRE-1987	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1987	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1988	1,154.1	1,377.1			737.7	155.6	112.7	98.4	90.9	68.3	60.9	52.5	0.0	0.0
1989	5,672.8	6,886.1			2,712.7	1,181.6	1,139.3	918.1	364.4	135.0	30.0	150.0	135.0	120.0
1990	2,697.0	3,580.7				1,106.8	721.2	792.3	668.8	291.6	0.0	0.0	0.0	0.0
1991	2,042.1	2,949.2					1,172.9	471.5	518.0	474.2	312.6	0.0	0.0	0.0
1992	0.0	0.0						0.0	0.0	0.0	0.0	0.0	0.0	0.0
1993	0.0	0.0							0.0	0.0	0.0	0.0	0.0	0.0
1994	0.0	0.0								0.0	0.0	0.0	0.0	0.0

TABLE IV. INSOLVENT INSTITUTIONS

TABLE IV(a): INSOLVENT INSTITUTIONS (DECEMBER 31, 1987)

	RAP INSOLVENT	GAAP BUT NOT RAP INSOLVENT	TANGIBLE BUT NOT GAAP INSOLVENT
CASELOAD			
SOUTHWEST PLAN	0	0	0
NON-SOUTHWEST PLAN	204	1	0
TOTAL CASELOAD	204	1	0
NON-CASELOAD			
SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	0	0	0
NOT UNDER DISTRICT SUPERVISION	0	0	0
NON-SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	140	41	27
NOT UNDER DISTRICT SUPERVISION	7	129	128
TOTAL NON-CASELOAD	147	170	155
TOTAL NUMBER OF INSOLVENT INSTITUTIONS	351	171	155

TABLE IV(b): COST TO RESOLVE INSTITUTIONS (DECEMBER 31, 1987)
($ IN MILLIONS)

	RAP INSOLVENT		GAAP BUT NOT RAP INSOLVENT		TANGIBLE BUT NOT GAAP INSOLVENT	
	PV	CASH	PV	CASH	PV	CASH
CASELOAD						
SOUTHWEST PLAN	$0.00	NA	$0.00	NA	$0.00	NA
NON-SOUTHWEST PLAN	$15,825.00	NA	$1,575.00	NA	$0.00	NA
TOTAL CASELOAD	$15,825.00	NA	$1,575.00	NA	$0.00	NA
NON-CASELOAD						
SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	$0.00	NA	$0.00	NA	$0.00	NA
NOT UNDER DISTRICT SUPERVISION	$0.00	NA	$0.00	NA	$0.00	NA
NON-SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	$5,222.20	NA	$403.05	NA	$761.19	NA
NOT UNDER DISTRICT SUPERVISION	$60.07	NA	$1,402.51	NA	$5,192.67	NA
TOTAL NON-CASELOAD	$5,282.27	NA	$1,805.56	NA	$5,953.86	NA
TOTAL COST TO RESOLVE INSOLVENT INSTITUTIONS	$21,107.27	NA	$3,380.56	NA	$5,953.86	NA

TABLE IV(c): INSOLVENT INSTITUTIONS (SEPTEMBER 30, 1988)

	RAP INSOLVENT	GAAP BUT NOT RAP INSOLVENT	TANGIBLE BUT NOT GAAP INSOLVENT
CASELOAD			
SOUTHWEST PLAN	89	2	2
NON-SOUTHWEST PLAN	157	0	0
TOTAL CASELOAD	246	2	2
NON-CASELOAD			
SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	0	0	0
NOT UNDER DISTRICT SUPERVISION	0	0	0
NON-SOUTHWEST PLAN:			
UNDER DISTRICT SUPERVISION	44	53	29
NOT UNDER DISTRICT SUPERVISION	6	85	105
TOTAL NON-CASELOAD	50	138	134
TOTAL NUMBER OF INSOLVENT INSTITUTIONS	296	140	136

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TABLE IV(d): COST TO RESOLVE INSTITUTIONS (SEPTEMBER 30, 1988)
($ in millions)

	RAP INSOLVENT		GAAP BUT NOT RAP INSOLVENT		TANGIBLE BUT NOT GAAP INSOLVENT	
	PV	CASH	PV	CASH	PV	CASH
CASELOAD						
SOUTHWEST PLAN	$9,805.55	NA	$6.11	NA	$581.44	NA
NON-SOUTHWEST PLAN	$11,095.81	NA	$0.00	NA	$0.00	NA
TOTAL CASELOAD	$20,901.36	NA	$6.11	NA	$581.44	NA
NON-CASELOAD						
SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	$0.00	NA	$0.00	NA	$0.00	NA
NOT UNDER DISTRICT SUPERVISION	$0.00	NA	$0.00	NA	$0.00	NA
NON-SOUTHWEST PLAN:						
UNDER DISTRICT SUPERVISION	$4,052.20	NA	$1,162.37	NA	$734.81	NA
NOT UNDER DISTRICT SUPERVISION	$1,126.32	NA	$883.02	NA	$4,593.80	NA
TOTAL NON-CASELOAD	$5,178.52	NA	$2,045.39	NA	$5,328.61	NA
TOTAL COST TO RESOLVE INSOLVENT INSTITUTIONS	$26,079.88	NA	$2,051.50	NA	$5,910.05	NA

TABLE IV. NOTES

1. The points in time provided in Table IV. differ from the original request, but were agreed to by the Committee's staff prior to the table's preparation. This table provides data as of 12/31/88 and 9/30/88.

2. In the 12/31/88 table, the present value cost of resolution for those thrifts in the FSLIC caseload is the estimated allowance for loss for unresolved cases shown on the 12/31/88 Consolidated Statement of Financial Condition. The present value cost of resolution for the non-caseload institutions was derived using their negative tangible net worth at 12/31/88.

In the 9/30/88 table, the present value cost of resolution for all 572 institutions represented in the table was derived by adjusting each thrifts negative tangible net worth by an experience factor of 128.75%. The experience factor is the percentage ratio of the Present Value Cost of Solution divided by the Negative Tangible Net Worth of all FSLIC case resolutions during January - September 1988. This methodology of applying an experience factor to the negative tangible net worth to arrive at an estimated present value cost of solution has been used many times and has proven to be a relatively accurate method, when it is not practical to complete a full costing on every case.

The cash cost of resolution is not available.

TABLE V. CHANGES IN NUMBERS OF INSOLVENT THRIFTS

TABLE V: CHANGES IN INSOLVENT INSTITUTIONS (12/31/87 - 9/30/88)
($ IN MILLIONS)

RAP INSOLVENT

	ADDITIONS			DELETIONS			NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	NA	NA	NA	NA	NA	NA	89	$9,805.55	NA
NON-SOUTHWEST PLAN	NA	NA	NA	NA	NA	NA	-47	($5,076.36)	NA
TOTAL CASELOAD	NA	NA	NA	NA	NA	NA	42	$4,729.19	NA
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	0	$0.00	NA
NOT UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	0	$0.00	NA
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	-96	($1,170.00)	NA
NOT UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	-1	$1,066.25	NA
TOTAL NON-CASELOAD	NA	NA	NA	NA	NA	NA	-97	($103.75)	NA
TOTAL CHANGE	NA	NA	NA	NA	NA	NA	-55	$4,625.44	NA

GAAP INSOLVENT

	ADDITIONS			DELETIONS			NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	NA	NA	NA	NA	NA	NA	2	$6.11	NA
NON-SOUTHWEST PLAN	NA	NA	NA	NA	NA	NA	-1	($1,575.00)	NA
TOTAL CASELOAD	NA	NA	NA	NA	NA	NA	1	($1,568.89)	NA
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	0	$0.00	NA
NOT UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	0	$0.00	NA
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	12	$759.32	NA
NOT UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	-44	($519.49)	NA
TOTAL NON-CASELOAD	NA	NA	NA	NA	NA	NA	-32	$239.83	NA
TOTAL CHANGE	NA	NA	NA	NA	NA	NA	-31	($1,329.06)	NA

TANGIBLE INSOLVENT

	ADDITIONS			DELETIONS			NET CHANGE		
	NO.	$		NO.	$		NO.	$	
CASELOAD		PV	CASH		PV	CASH		PV	CASH
ADDS TO SOUTHWEST PLAN	NA	NA	NA	NA	NA	NA	2	$581.44	NA
NON-SOUTHWEST PLAN	NA	NA	NA	NA	NA	NA	0	$0.00	NA
TOTAL CASELOAD	NA	NA	NA	NA	NA	NA	2	$581.44	NA
NON-CASELOAD									
SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	0	$0.00	NA
NOT UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	0	$0.00	NA
NON-SOUTHWEST PLAN:									
UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	2	($26.38)	NA
NOT UNDER DISTRICT SUPERVISION	NA	NA	NA	NA	NA	NA	-23	($598.87)	NA
TOTAL NON-CASELOAD	NA	NA	NA	NA	NA	NA	-21	($625.25)	NA
TOTAL CHANGE	NA	NA	NA	NA	NA	NA	-19	($43.81)	NA

TABLE V. NOTES

The information on Table V. corresponds to the data in Table IV. The preparation of Table IV. employed the use of a personal computer. Various factors, relative to a PC`s limited capability, prohibited the tracking of specific institutions over the December 31, 1987 to September 30, 1988 period. (The status of every FSLIC-insured institution is maintained on the Agency`s mainframe computer. Because the status of an institution does, in most cases, change from one period to another, to track an institution over time requires the verification of numerous characteristics.) The ability to cross-reference was beyond the scope of the PC`s.

TABLE VI. FISCAL YEAR 1988 CASE RESOLUTIONS

TABLE VI: FISCAL YEAR 1988 CASE RESOLUTIONS
($ in millions)

TRANSACTIONS	(1) PRIVATE CAP CMT	(2) TAX EXP		(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDMN AGRMNTS		(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RESLTN	(12) CAP RES BEFORE RESLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RESLTN
	CASH	PV	CASH	PV	CASH	CASH	PV	CASH	PV	CASH	PV	CASH	PV	CASH	PV	CASH					
MERGERS/ ACQUISITIONS	863.3	NA	NA	11,509.5	17,410.1	1,019.8	4,858.0	8,690.2	NA	NA	2,967.8	3,675.0	2,606.9	5,529.2	(23.0)	(277.3)	17,432.8	(8,282.0)	-29.5%	1,095.4	2.0%
DEPOSITOR PAYOUTS				1,165.5	1,730.7	1,730.7												(1,025.5)	-57.1%		
DEPOSIT TRANSFERS				2,509.0	3,572.8	2,010.2		1,562.6										(1,745.8)	-40.0%		
TOTAL	863.3	NA	NA	15,184.0	22,713.6	4,760.7	4,858.0	10,252.8	NA	NA	2,967.8	3,675.0	2,606.9	5,529.2	(23.0)	(277.3)	17,432.8	(11,053.3)	-29.8%	1,095.4	2.0%

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS
($ in millions)

			(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
MERGERS/ACQUISTIONS																					
FIRST FSLA	NATCHITOCHES	LA	2.1	NA	22.1	22.7	19.2	0.0	0.0	NA	1.9	2.1	0.9	1.3	0.1	0.1	25.8	(22.0)	-31.4%	9.0	3.1%
GULF FSLA	MOBILE	AL	0.6	NA	0.5	0.5	0.5	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)	-7.3%	0.4	5.9%
ARGO FSLA	SUMMIT	IL	1.0	NA	3.9	3.9	3.9	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(4.2)	-14.2%	0.2	0.7%
SURETY FSLA	MORGANTON	NC	5.2	NA	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(8.9)	-6.6%	(3.2)	-2.3%
AMERICAN FSLA	LYNCHBURG	VA	6.0	NA	33.4	31.3	39.4	0.0	0.0	NA	4.0	4.6	2.1	2.6	(12.2)	(15.3)	57.9	(30.9)	-14.5%	34.2	7.2%
COMMUNITY FSLA	HAMILTON	OH	2.0	NA	21.9	21.9	21.9	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(27.1)	-6.5%	3.4	0.3%
GIBSON FSLA	GIBSON CITY	IL	5.0	NA	33.6	20.2	30.6	0.0	0.0	NA	1.8	2.0	1.0	1.3	0.3	(13.7)	21.7	(30.7)	-19.3%	(34.6)	-1.6%
BOONE CNTY FSLA	CENTRALIA	MO	0.6	NA	2.3	2.3	2.3	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	-9.8%	26.0	7.1%
FIRST FSB	SLIDELL	LA	31.2	NA	189.7	243.0	56.6	87.9	246.2	NA	33.4	38.4	68.7	84.4	(56.8)	(182.7)	7.3	(8.1)	-14.7%	45.1	3.8%
FIRST FIN BANK	NEW ORLEANS	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	175.9	(188.8)	-21.5%	*	*
RIVERSIDE FSA	PINE BLUFF	AR	29.2	NA	859.3	972.1	0.0	790.3	989.8	NA	0.0	0.0	0.0	0.0	(17.7)	(17.7)	0.0	(63.2)	-6.7%	39.7	1.5%
FIRST FIN OF LA	LUTCHER	LA	26.6	NA	293.5	479.0	28.9	239.8	419.7	NA	25.0	30.4	0.0	0.0	0.0	0.0	120.1	(18.9)	-10.5%	(173.5)	-9.5%
FIRST FSLA	ALEXANDRIA	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	21.4	(15.6)	-9.7%	*	*
GULF FSLA	METAIRIE	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	201.3	(176.6)	-36.3%	*	*
FIRSTBANC FSB	GONZALES	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	20.7	(18.5)	-30.4%	*	*
MT PLEASANT SLA	MT PLEASANT	TX	0.9	NA	3.8	3.9	3.7	0.0	0.0	NA	0.0	0.0	0.2	0.2	0.0	0.0	2.7	(4.7)	-16.0%	4.9	5.0%
FIRST FSLA	FREEPORT	IL	1.1	NA	13.1	14.7	7.1	0.0	0.0	NA	0.2	0.2	0.0	0.0	5.9	7.4	31.1	(9.5)	-25.76%	(5.2)	-1.6%
MAGNET BANK,FSB	CHARLESTON	WV	29.1	NA	81.5	72.2	46.0	0.0	0.0	NA	16.4	18.1	1.2	1.5	17.9	6.6	722.6	(48.4)	-6.72%	25.3	3.5%
MOUNTAIN STATE	CLARKSBURG	WV	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
TRADERS FSLA	PARKERSBURG	WV	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FSLA	CRAIG	CO	2.0	NA	3.3	1.2	3.1	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.2	(1.9)	30.9	(3.8)	-11.39%	(1.1)	-3.2%
FIRST FSB	WATERLOO	IA	21.0	NA	154.1	167.8	60.0	42.2	50.7	NA	26.9	31.0	33.2	43.9	(8.2)	(17.8)	601.7	(108.0)	-16.50%	9.8	1.6%
FIRST FED SB	N PALM BEACH	FL	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
PEOPLES FSLA	WATERLOO	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS ($ in millions)			(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
PERPETUAL SLA	WATERLOO	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
VALLEY FSLA	ERWIN	TN	1.3	NA	7.1	7.1	5.9	0.0	0.0	NA	0.0	0.0	1.1	1.2	0.0	0.0	89.4	(10.8)	-11.86%	87.2	14.1%
TRI-CITIES SLA	KENNEWICK	WA	1.9	NA	15.8	17.3	9.5	0.0	0.0	NA	3.1	3.6	3.6	4.6	(0.4)	(0.4)	56.7	(9.1)	-14.77%	4.5	1.1%
CITIZENS SLA	EAST ALTON	IL	1.3	NA	6.5	6.5	6.5	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	39.0	(5.2)	-12.58%	13.3	6.3%
FIRST FSLA	HAMMONTON	NJ	9.6	NA	72.1	71.5	58.8	0.0	0.0	NA	0.0	0.0	10.5	11.5	2.8	1.2	262.4	(82.0)	-25.72%	(1.8)	-0.4%
EUREKA FSLA	SAN CARLOS	CA	100.0	NA	303.5	269.6	279.6	0.0	0.0	NA	16.6	17.9	8.5	9.5	(1.2)	(37.3)	1743.8	(297.7)	-15.85%	83.1	4.3%
FRONTIER FSB	DYERSBURG	TN	2.5	NA	9.6	9.6	9.6	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	49.2	(7.5)	-15.50%	2.4	5.0%
MUSKEGON FSLA	MUSKEGON	MI	4.0	NA	4.0	4.0	4.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	206.4	(1.7)	-0.79%	6.3	2.1%
LYNNWOOD SLA	LYNNWOOD	WA	16.0	NA	6.0	5.4	9.1	0.0	0.0	NA	0.0	0.0	0.0	0.0	(3.1)	(3.7)	23.5	(3.5)	-12.86%	14.9	57.4%
STANFORD SLA	PALO ALTO	CA	0.0	NA	9.3	10.7	7.3	0.0	0.0	NA	3.1	3.4	0.0	0.0	(1.1)	0.0	73.7	(7.9)	NA	83.1	4.3%
GALVA FSLA	GALVA	IL	4.6	NA	34.2	34.5	34.2	0.0	0.0	NA	0.0	0.0	1.5	1.8	(1.5)	(1.5)	177.2	(29.6)	-15.78%	3.5	0.0%
HOME FSLA	PEORIA	IL	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
MUTUAL SLA	CANTON	IL	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
REPUBLIC SAVINGS	SOUTH BELOIT	IL	NA	NA	17.8	17.8	17.8	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	39.1	(17.2)	-31.99%	6.5	2.2%
COMMERCE FSB	KNOXVILLE	TN	0.0	NA	17.2	17.2	16.5	0.0	0.0	NA	6.7	7.3	0.0	0.0	0.0	0.0	42.9	(15.0)	-27.16%	10.5	4.7%
FIRST FSLA	TAYLORVILLE	IL	0.0	NA	2.7	2.7	2.7	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	37.0	(3.7)	-9.63%	(65.1)	-4.9%
PEOPLES SLA, FA	OWATONNA	MN	14.9	NA	299.0	626.4	0.0	242.3	506.4	NA	23.2	26.6	15.1	19.3	18.5	74.1	1154.1	(294.7)	0.00%	29.6	3.1%
WASHINGTON FSB	STILLWATER	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
IONEER FSLA	MASON CITY	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
IRST FSLA	HIBBING	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	10.3	3.2%
FIRST FSLA	BRAINERD	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FSLA	GRAND RAPIDS	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FED BANK	SHENANDOAH	IA	0.0	NA	12.2	12.2	12.2	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	48.6	(18.3)	-29.65%	7.2	11.6%
WESTERN FSLA	COUNCIL BLUFFS	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
HOMESTATE SLA	HAYWARD	CA	6.7	NA	40.1	40.1	40.1	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	190.0	(44.8)	-19.91%	3.9	1.7%
FIRST FSLA	LONGVIEW	WA	2.6	NA	14.2	9.4	10.9	0.0	0.0	NA	0.5	0.5	0.0	0.0	2.8	(2.0)	87.2	(8.0)	-9.44%	2.7	3.2%

FISCAL YEAR 1988 CASE RESOLUTIONS

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INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
CAPITOL FS	EVERGREEN PARK	IL	16.1	NA	16.7	12.7	26.4	0.0	0.0	NA	0.0	0.0	0.3	0.4	(9.9)	(14.0)	241.7	(19.8)	-7.64%	47.0	3.9%
NORTHWEST FSLA	BOISE	ID	0.9	NA	2.4	2.4	2.4	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	28.0	(3.0)	-10.01%	210.2	10.5%
FIRST FSB	ROGERS	AR	4.5	NA	24.4	25.6	18.3	0.0	0.0	NA	3.2	3.7	2.4	3.1	0.4	0.5	133.9	(19.7)	-16.10%	(0.6)	-0.4%
FIDELITY FSLA	BERWYN	IL	1.3	NA	3.6	3.6	3.6	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	40.0	(6.1)	-16.11%	(65.1)	-4.9%
LOVES PARK FSB	LOVES PARK	IL	1.4	NA	5.0	5.0	5.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	42.4	(5.1)	-11.47%	(3.9)	-1.1%
ARSENAL, SA FA	INDIANAPOLIS	IN	5.4	NA	35.0	36.3	30.3	0.0	0.0	NA	2.4	2.8	2.4	3.2	0.0	0.0	199.0	(32.8)	-18.66%	(0.2)	-0.1%
FRANKTON FSLA	FRANKTON	IN	1.0	NA	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.8)	-8.43%	0.2	0.7%
BELL SLA, FSLA	SAN MATEO	CA	20.0	NA	565.8	695.8	15.0	479.5	628.7	NA	67.3	80.2	28.7	35.9	(24.7)	(63.9)	938.4	(574.8)	-40.91%	68.4	1.7%
BUTTERFIELD SLA	SANTA ANA	CA	20.0	NA	281.2	386.3	0.0	237.0	333.5	NA	7.3	8.2	37.0	44.6	0.0	0.0	561.7	(301.6)	-45.64%	20.0	3.1%
ADOBE SB	CONCORD	CA	1.5	NA	3.0	3.0	3.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	48.1	(0.9)	-1.93%	2.4	2.5%
CAPITAL FSLA	GARY	IN	10.4	NA	28.8	28.8	28.8	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	340.4	(22.9)	-6.60%	(18.8)	-6.5%
FIRST FSB	GARY	IN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
CITIZENS FSLA	NEW CASTLE	IN	1.7	NA	5.7	5.4	6.3	0.0	0.0	NA	0.0	0.0	0.0	0.0	(0.6)	(0.9)	52.8	(5.8)	-10.47%	32.6	12.9%
UNITED SA	TIPTON	IN	2.0	NA	8.4	7.8	9.3	0.0	0.0	NA	0.0	0.0	0.4	0.4	(1.3)	(1.9)	62.3	(8.2)	-12.86%	4.5	1.9%
CITIZENS FSLA	JACKSONVILLE	FL	4.0	NA	(0.5)	(0.5)	0.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	(0.5)	(0.5)	63.8	(8.0)	-12.82%	(6.1)	-9.8%
COOSA FSLA	GASDEN	AL	0.0	NA	13.0	13.0	13.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	79.3	(9.1)	-11.44%	110.4	4.8%
FREEDOM FSLA	CORVALLIS	OR	10.2	NA	29.3	60.9	0.0	29.3	60.9	NA	0.0	0.0	0.0	0.0	0.0	0.0	334.0	(26.6)	-7.98%	210.2	10.5%
SUBTOTAL MERG/ACQ			427.2	NA	3608.7	4504.7	1009.1	2148.2	3235.8	NA	242.8	280.9	218.6	270.8	-90.3	-285.3	9527.3	-2694.4	-26.92%	889.6	2.6%
MERG/ACQ (SOUTHWEST PLAN)																					
COASTAL																					
ALLIANCE			141.1	NA	141.1	237.2	3.6	35.2	67.7	NA	52.9	61.9	52.0	112.8	(2.3)	(8.7)	52.4	(56.3)	-36.55%	0.5	0.1%
CAMERON CNTY SA	SAN BENITO	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	9.6	(0.3)	-1.14%	*	*
COLORADO CNTY	COLUMBUS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	69.5	(13.6)	-5.85%	*	*

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INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
SECURITY SLA	DICKERSON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	61.5	(28.1)	-20.82%	*	*
BLUEBONNET SA	HEMPSTEAD	TX	0.0	NA	9.5	9.9	7.1	0.0	0.0	NA	0.7	0.7	1.7	2.1	0.0	0.0	3.8	(5.5)	-18.37%	2.2	8.6%
SOUTHWEST																					
LAMAR SA	AUSTIN	TX	0.0	NA	2115.3	3727.3	0.0	547.0	1079.9	NA	706.7	826.8	861.6	1820.6	0.0	0.0	1243.0	(409.5)	-18.13%	(23.6)	-0.4%
BRIERCROFT SA	LUBBOCK	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	238.5	(38.0)	-4.22%	*	*
CITY SLA	SAN ANGELO	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	499.2	(266.5)	-27.01%	*	*
STOCKTON SA	ADDISON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	499.2	(362.0)	-37.36%	*	*
MERABANK																					
BROWNFIELD SLA	BROWNFIELD	TX	27.0	NA	669.3	27.0	0.0	166.8	343.8	NA	216.4	258.3	292.4	664.3	(6.3)	(19.3)	20.5	(13.8)	-28.06%	(0.9)	-0.2%
FIRST FIN SA	EL PASO	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	207.6	(52.1)	-15.37%	*	*
STATE OF LUBBOCK	LUBBOCK	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	414.0	(596.8)	-63.33%	6.5	0.5%
'LOAN STAR & GIBSON GROUP*																					
AMERICAN BANK SA	DALLAS	TX	48.0	NA	1313.8	2379.2	0.0	495.1	1008.4	NA	481.4	617.3	317.3	752.2	19.9	1.4	16.9	(15.2)	-20.92%	48.6	1.6%
BEN MILAM SLA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	100.4	(181.4)	-53.73%	*	*
COMMERCE FSLA	COMMERCE	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	3.0	(3.3)	-10.04%	*	*
GLADEWATER FSLA	GLADEWATER	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	9.9	(11.3)	-31.70%	*	*
IRVING SA	IRVING	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	28.3	(68.5)	-54.35%	*	*
LONGVIEW SLA	LONGVIEW	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	32.1	(48.9)	-26.64%	*	*
MAJESTIC SA	MCKINNEY	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	125.8	(108.7)	-30.92%	*	*
MERCURY SA	WICHITA FALLS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	272.9	(263.5)	-44.99%	*	*
PARIS SLA	PARIS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	302.4	(166.5)	-38.66%	*	*
RICHARDSON SLA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	275.1	(177.3)	-20.81%	*	*

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS ($ in millions)			(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
SKYLINE SA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	51.8	(11.6)	-9.19%	*	*
SOUTHLAND	LONGVIEW	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	18.4	(6.3)	-17.87%	*	*
PULTE																					
ALLENPARK FSLA	HOUSTON	TX	45.0	NA	1102.0	2008.1	0.0	522.8	1039.7	NA	310.9	396.5	239.0	563.0	29.3	8.9	73.2	(28.9)	-14.49%	22.5	1.5%
BAY CITY FSLA	BAY CITY	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	122.1	(39.6)	-23.03%	*	*
GULF COAST SA	RICHMOND	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	28.7	(12.8)	-17.88%	*	*
CHAMPION	HOUSTON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	604.3	(370.9)	-35.92%	*	*
HEIGHT SA	HOUSTON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	156.3	(227.2)	-48.16%	30.1	6.1%
CLUB CORP																					
CREDITBANC SA	AUSTIN	TX	30.0	NA	999.5	1620.5	0.0	262.9	523.4	NA	415.7	532.6	294.5	538.8	26.5	25.7	466.8	(322.8)	-37.40%	23.2	1.2%
FRANKLIN SA	AUSTIN	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	405.8	(355.8)	-48.04%	*	*
GREATWEST SB	AUSTIN	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	138.5	(31.1)	-15.36%	*	*
TEMPLE-INLAND/TRAMMELL CROW/BEST																					
ELTA SA	ALVIN	TX	145.0	NA	1550.2	2896.3	0.0	680.1	1391.6	*	540.3	700.1	329.8	804.6	0.0	0.0	142.5	(144.4)	-43.23%	96.7	2.3%
IRST FSLA	AUSTIN	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	283.8	(131.3)	-11.21%	*	*
GUARANTY FSLA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	927.9	(1,018.1)	-38.20%	*	*
SUBTOTAL MERG/ACQ (SWEST PLAN)			436.1	NA	7900.8	12905.4	10.7	2709.8	5454.4	NA	2725.0	3394.1	2388.3	5258.3	67.3	8.0	7905.5	(5,587.6)	-30.96%	205.8	1.0%
TOTAL MERGERS/ACQUISITIONS			863.3	NA	11509.5	17410.1	1019.8	4858.0	8690.2	NA	2967.8	3675.0	2606.9	5529.1	-23.1	-277.2	17432.8	-8282.0	-29.52%	1095.4	2.0%

FISCAL YEAR 1988 CASE RESOLUTIONS

INSTITUTION	CITY	STATE	(3) TOTAL COST TO FSLIC PV	(3) TOTAL COST TO FSLIC CASH	(4) UPFRONT CASH	(5) NOTES PV	(5) NOTES CASH
DEPOSITOR PAYOUTS							
NORTH AMERICA SLA, A FSLA	SANTA ANA	CA	133.2	212.3	212.3		
AMERICAN DIVERSIFIED SB	LODI	CA	797.6	1,155.8	1,155.8		
FARMERS SAVINGS, A FSLA	DAVIS	CA	198.9	287.3	287.3		
UNIVERSAL SA, A FSLA	CHICKASHA	OK	35.8	75.3	75.3		
TOTAL DEPOSITOR PAYOUTS			1165.5	1730.7	1730.7	0.0	0.0
DEPOSITOR TRANSFERS							
SIERRA SLA	MINDEN	NE	5.4	12.4	12.4		
TRI-COUNTY SLA	CAMDEN	NJ	22.5	44.6	44.6		
VERNON SLA	DALLAS	TX	1,260.1	1,366.8	202.4		1,164.4
BOHEMIAN SLA	ST LOUIS	MO	97.2	175.4	175.4		
FIRST SA OF EAST TEXAS	SAN AUGUSTINE	TX	88.0	134.6	134.6		
CITIZENS SLA, A FSLA	SALEM	OR	141.3	145.8	45.8		100.0
TERRITORY SLA	SEMINOLE	OK	46.2	67.8	47.8		20.0
MT WHITNEY SLA	EXETER	CA	46.4	76.3	76.3		
RAMONA FSLA	ORANGE	CA	76.3	109.5	109.5		
FIRST FSLA	PADUCAH	KY	52.3	149.2	149.2		
INVESTORS SLA, A FSLA	EL RENO	OK	40.7	92.0	92.0		
UNITED SAVINGS, A FSLA	DURANT	OK	44.1	87.9	87.9		

FISCAL YEAR 1988 CASE RESOLUTIONS

INSTITUTION	CITY	STATE	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES	
			PV	CASH		PV	CASH
FIRST FSLA	SHAWNEE	OK	55.8	143.7	143.7		
AMERICAN FSLA	ANDERSON	IN	67.2	168.7	168.7		
CARDINAL SB, INC	NEWPORT	NC	34.4	89.9	89.9		
LARUE FSLA	HODGENVILLE	KY	6.9	16.5	16.5		
THE AMERICAN FSLA	ANADARKO	OK	111.8	144.2	144.2		
VICTOR SLA, A FSLA	MUSKOGEE	OK	241.0	348.2	70.0		278.2
ULTIMATE SB, FSB	RICHMOND	VA	55.8	181.3	181.3		
PEOPLES SLA	LA GRANDE	OR	15.7	18.0	18.0		
TOTAL DEPOSITOR TRANSFERS			2,509.0	3,572.8	2,010.2	0.0	1,562.6

TABLE VI: FISCAL YEAR 1988 CASE RESOLUTIONS
($ in millions)

TRANSACTIONS	(1) PRIVATE CAP CNT	(2) TAX EXP		(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDMN AGRMNTS		(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RESLTN	(12) CAP RES BEFORE RESLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RESLTN
	CASH	PV	CASH	PV	CASH	CASH	PV	CASH	PV	CASH	PV	CASH	PV	CASH	PV	CASH					
MERGERS/ ACQUISITIONS	863.3	NA	NA	11,509.5	17,410.1	1,019.8	4,858.0	8,690.2	NA	NA	2,967.8	3,675.0	2,606.9	5,529.2	(23.0)	(277.3)	17,432.8	(8,282.0)	-29.5%	1,095.4	2.0%
DEPOSITOR PAYOUTS				1,165.5	1,730.7	1,730.7															
DEPOSIT TRANSFERS				2,509.0	3,572.8	2,010.2		1,562.6													
TOTAL	863.3	NA	NA	15,184.0	22,713.6	4,760.7	4,858.0	10,252.8	NA	NA	2,967.8	3,675.0	2,606.9	5,529.2	(23.0)	(277.3)	17,432.8	(8,282.0)	-29.5%	1,095.4	2.0%

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS
($ in millions)

INSTITUTION	CITY	ST	(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
			CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
MERGERS/ACQUISITIONS																					
FIRST FSLA	NATCHITOCHES	LA	2.1	NA	22.1	22.7	19.2	0.0	0.0	NA	1.9	2.1	0.9	1.3	0.1	0.1	25.8	(22.0)	-31.4%	9.0	3.1%
GULF FSLA	MOBILE	AL	0.6	NA	0.5	0.5	0.5	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)	-7.3%	0.4	5.9%
ARGO FSLA	SUMMIT	IL	1.0	NA	3.9	3.9	3.9	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(4.2)	-14.2%	0.2	0.7%
SURETY FSLA	MORGANTON	NC	5.2	NA	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(8.9)	-6.6%	(3.2)	-2.3%
AMERICAN FSLA	LYNCHBURG	VA	6.0	NA	33.4	31.3	39.4	0.0	0.0	NA	4.0	4.6	2.1	2.6	(12.2)	(15.3)	57.9	(30.9)	-14.5%	34.2	7.2%
COMMUNITY FSLA	HAMILTON	OH	2.0	NA	21.9	21.9	21.9	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(27.1)	-6.5%	3.4	0.3%
GIBSON FSLA	GIBSON CITY	IL	5.0	NA	33.6	20.2	30.6	0.0	0.0	NA	1.8	2.0	1.0	1.3	0.3	(13.7)	21.7	(30.7)	-19.3%	(34.6)	-1.6%
BOONE CNTY FSLA	CENTRALIA	MO	0.6	NA	2.3	2.3	2.3	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	-9.8%	26.0	7.1%
FIRST FSB	SLIDELL	LA	31.2	NA	189.7	243.0	56.6	87.9	246.2	NA	33.4	38.4	68.7	84.4	(56.8)	(182.7)	7.3	(8.1)	-14.7%	43.1	3.8%
FIRST FIN BANK	NEW ORLEANS	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	175.9	(188.8)	-21.5%	*	*
RIVERSIDE FSA	PINE BLUFF	AR	29.2	NA	859.3	972.1	0.0	790.3	989.8	NA	0.0	0.0	0.0	0.0	(17.7)	(17.7)	0.0	(63.2)	-6.7%	39.7	1.5%
FIRST FIN OF LA	LUTCHER	LA	26.6	NA	293.5	479.0	28.9	239.8	419.7	NA	25.0	30.4	0.0	0.0	0.0	0.0	120.1	(18.9)	-10.5%	(173.5)	-9.5%
FIRST FSLA	ALEXANDRIA	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	21.4	(15.6)	-9.7%	*	*
GULF FSLA	METAIRIE	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	201.3	(176.6)	-36.3%	*	*
FIRSTBANC FSB	GONZALES	LA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	20.7	(18.5)	-30.4%	*	*
MT PLEASANT SLA	MT PLEASANT	TX	0.9	NA	3.8	3.9	3.7	0.0	0.0	NA	0.0	0.0	0.2	0.2	0.0	0.0	2.7	(4.7)	-16.0%	4.9	5.0%
FIRST FSLA	FREEPORT	IL	1.1	NA	13.1	14.7	7.1	0.0	0.0	NA	0.2	0.2	0.0	0.0	5.9	7.4	31.1	(9.5)	-25.76%	(5.2)	-1.6%
MAGNET BANK,FSB	CHARLESTON	WV	29.1	NA	81.5	72.2	46.0	0.0	0.0	NA	16.4	18.1	1.2	1.5	17.9	6.6	722.6	(48.4)	-6.72%	25.3	3.5%
MOUNTAIN STATE	CLARKSBURG	WV	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
TRADERS FSLA	PARKERSBURG	WV	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FSLA	CRAIG	CO	2.0	NA	3.3	1.2	3.1	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.2	(1.9)	30.9	(3.8)	-11.39%	(1.1)	-3.2%
FIRST FSB	WATERLOO	IA	21.0	NA	154.1	167.8	60.0	42.2	50.7	NA	26.9	31.0	33.2	43.9	(8.2)	(17.8)	601.7	(108.0)	-16.50%	9.8	1.6%
FIRST FED SB	N PALM BEACH	FL	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
PEOPLES FSLA	WATERLOO	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS
($ in millions)

INSTITUTION	CITY	ST	(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
			CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
PERPETUAL SLA	WATERLOO	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
VALLEY FSLA	ERWIN	TN	1.3	NA	7.1	7.1	5.9	0.0	0.0	NA	0.0	0.0	1.1	1.2	0.0	0.0	89.4	(10.8)	-11.86%	87.2	14.1%
TRI-CITIES SLA	KENNEWICK	WA	1.9	NA	15.8	17.3	9.5	0.0	0.0	NA	3.1	3.6	3.6	4.6	(0.4)	(0.4)	56.7	(9.1)	-14.77%	4.5	1.1%
CITIZENS SLA	EAST ALTON	IL	1.3	NA	6.5	6.5	6.5	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	39.0	(5.2)	-12.58%	13.3	6.3%
FIRST FSLA	HAMMONTON	NJ	9.6	NA	72.1	71.5	58.8	0.0	0.0	NA	0.0	0.0	10.5	11.5	2.8	1.2	262.4	(82.0)	-25.72%	(1.8)	-0.4%
EUREKA FSLA	SAN CARLOS	CA	100.0	NA	303.5	269.6	279.6	0.0	0.0	NA	16.6	17.9	8.5	9.5	(1.2)	(37.3)	1743.8	(297.7)	-15.85%	83.1	4.3%
FRONTIER FSB	DYERSBURG	TN	2.5	NA	9.6	9.6	9.6	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	49.2	(7.5)	-15.50%	2.4	5.0%
MUSKEGON FSLA	MUSKEGON	MI	4.0	NA	4.0	4.0	4.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	206.4	(1.7)	-0.79%	4.3	2.1%
LYNNWOOD SLA	LYNNWOOD	WA	16.0	NA	6.0	5.4	9.1	0.0	0.0	NA	0.0	0.0	0.0	0.0	(3.1)	(3.7)	23.5	(3.5)	-12.86%	16.9	57.4%
STANFORD SLA	PALO ALTO	CA	0.0	NA	9.3	10.7	7.3	0.0	0.0	NA	3.1	3.4	0.0	0.0	(1.1)	0.0	73.7	(7.9)	NA	83.1	4.3%
GALVA FSLA	GALVA	IL	4.6	NA	34.2	34.5	34.2	0.0	0.0	NA	0.0	0.0	1.5	1.8	(1.5)	(1.5)	177.2	(29.6)	-15.78%	3.5	0.0%
HOME FSLA	PEORIA	IL	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
MUTUAL SLA	CANTON	IL	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
REPUBLIC SAVINGS	SOUTH BELOIT	IL	NA	NA	17.8	17.8	17.8	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	39.1	(17.2)	-31.99%	4.5	2.2%
COMMERCE FSB	KNOXVILLE	TN	0.0	NA	17.2	17.2	16.5	0.0	0.0	NA	6.7	7.3	0.0	0.0	0.0	0.0	42.9	(15.0)	-27.16%	10.5	4.7%
FIRST FSLA	TAYLORVILLE	IL	0.0	NA	2.7	2.7	2.7	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	37.0	(3.7)	-9.63%	(65.1)	-4.9%
PEOPLES SLA, FA	OWATONNA	MN	14.9	NA	299.0	626.4	0.0	242.3	506.4	NA	23.2	26.6	15.1	19.3	18.5	74.1	1154.1	(294.7)	0.00%	29.6	3.1%
WASHINGTON FSB	STILLWATER	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
PIONEER FSLA	MASON CITY	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FSLA	HIBBING	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	10.3	3.2%
FIRST FSLA	BRAINERD	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FSLA	GRAND RAPIDS	MN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
FIRST FED BANK	SHENANDOAH	IA	0.0	NA	12.2	12.2	12.2	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	48.6	(18.3)	-29.45%	7.2	11.6%
WESTERN FSLA	COUNCIL BLUFFS	IA	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
HOMESTATE SLA	HAYWARD	CA	6.7	NA	40.1	40.1	40.1	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	190.0	(44.8)	-19.91%	3.9	1.7%
FIRST FSLA	LONGVIEW	WA	2.6	NA	14.2	9.4	10.9	0.0	0.0	NA	0.5	0.5	0.0	0.0	2.8	(2.0)	87.2	(8.0)	-9.64%	2.7	3.2%

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS
($ in millions)

			(1)	(2)	(3)		(4)	(5)		(6)	(7)		(8)		(9)		(10)	(11)	(12)	(13)	(14)
			PRIVATE CAP CNT	TAX EXP	TOTAL COST TO FSLIC		UPFRONT CASH	NOTES		INDM AGR	YLD MAINT AGRMNTS		CAPITAL LOSS AGRMNTS		OTHER		ASSET COVERAGE	TANG NW BEFORE RSLTN	CAP RES BEFORE RSLTN	TANG NW AFTER RSLTN	CAP RES AFTER RSLTN
INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
CAPITOL FS	EVERGREEN PARK	IL	14.1	NA	16.7	12.7	26.4	0.0	0.0	NA	0.0	0.0	0.3	0.4	(9.9)	(14.0)	241.7	(19.8)	-7.64%	47.0	3.9%
NORTHWEST FSLA	BOISE	ID	0.9	NA	2.4	2.4	2.4	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	28.0	(3.0)	-10.01%	210.2	10.5%
FIRST FSB	ROGERS	AR	4.5	NA	24.4	25.6	18.3	0.0	0.0	NA	3.2	3.7	2.4	3.1	0.4	0.5	133.9	(19.7)	-14.10%	(0.6)	-0.4%
FIDELITY FSLA	BERWYN	IL	1.3	NA	3.6	3.6	3.6	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	40.0	(6.1)	-14.11%	(65.1)	-4.9%
LOVES PARK FSB	LOVES PARK	IL	1.4	NA	5.0	5.0	5.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	42.4	(5.1)	-11.47%	(3.9)	-1.1%
ARSENAL, SA FA	INDIANAPOLIS	IN	5.4	NA	35.0	36.3	30.3	0.0	0.0	NA	2.4	2.8	2.4	3.2	0.0	0.0	199.0	(32.8)	-18.66%	(0.2)	-0.1%
FRANKTON FSLA	FRANKTON	IN	1.0	NA	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.8)	-8.63%	0.2	0.7%
BELL SLA, FSLA	SAN MATEO	CA	20.0	NA	565.8	695.8	15.0	479.5	628.7	NA	67.3	80.2	28.7	35.9	(24.7)	(63.9)	930.4	(574.8)	-60.91%	68.4	1.7%
BUTTERFIELD SLA	SANTA ANA	CA	20.0	NA	281.2	386.3	0.0	237.0	333.5	NA	7.3	8.2	37.0	44.6	0.0	0.0	561.7	(301.6)	-45.64%	20.0	3.1%
ADOBE SB	CONCORD	CA	1.5	NA	3.0	3.0	3.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	48.1	(0.9)	-1.95%	2.4	2.5%
CAPITAL FSLA	GARY	IN	10.4	NA	28.8	28.8	28.[illegible]	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	340.4	(22.9)	-6.60%	(18.8)	-6.5%
FIRST FSB	GARY	IN	*	NA	*	*	*	*	*	NA	*	*	*	*	*	*	*	*	*	*	*
CITIZENS FSLA	NEW CASTLE	IN	1.7	NA	5.7	5.4	6.3	0.0	0.0	NA	0.0	0.0	0.0	0.0	(0.6)	(0.9)	52.8	(5.8)	-10.47%	32.6	12.9%
UNITED SA	TIPTON	IN	2.0	NA	8.4	7.8	9.3	0.0	0.0	NA	0.0	0.0	0.4	0.4	(1.3)	(1.9)	62.3	(8.2)	-12.86%	4.5	1.9%
CITIZENS FSLA	JACKSONVILLE	FL	4.0	NA	(0.5)	(0.5)	0.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	(0.5)	(0.5)	63.8	(8.0)	-12.82%	(6.1)	-9.8%
COOSA FSLA	GASDEN	AL	0.0	NA	13.0	13.0	13.0	0.0	0.0	NA	0.0	0.0	0.0	0.0	0.0	0.0	79.3	(9.1)	-11.44%	110.4	4.8%
FREEDOM FSLA	CORVALLIS	OR	10.2	NA	29.3	60.9	0.0	29.3	60.9	NA	0.0	0.0	0.0	0.0	0.0	0.0	334.0	(26.6)	-7.98%	210.2	10.5%
SUBTOTAL MERG/ACQ			427.2	NA	[illegible]	4504.7	1009.1	2148.2	3235.8	NA	242.8	280.9	218.6	270.8	-90.3	-285.3	9527.3	-2694.4	-26.92%	809.6	2.6%
MERG/ACQ (SOUTHWEST PLAN)																					
"COASTAL"																					
ALLIANCE			141.1	NA	141.1	237.2	3.6	35.2	67.7	NA	52.9	61.9	52.0	112.8	(2.3)	(8.7)	52.4	(56.3)	-36.55%	0.5	0.1%
CAMERON CNTY SA	SAN BENITO	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	9.6	(0.3)	-1.14%	*	*
COLORADO CNTY	COLUMBUS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	69.5	(13.6)	-5.85%	*	*

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS ($ in millions)			(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
SECURITY SLA	DICKERSON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	61.5	(28.1)	-20.82%	*	*
BLUEBONNET SA	HEMPSTEAD	TX	0.0	NA	9.5	9.9	7.1	0.0	0.0	NA	0.7	0.7	1.7	2.1	0.0	0.0	3.8	(5.5)	-18.37%	2.2	8.6%
SOUTHWEST																					
LAMAR SA	AUSTIN	TX	0.0	NA	2115.3	3727.3	0.0	547.0	1079.9	NA	706.7	826.8	861.6	1820.6	0.0	0.0	1243.0	(409.5)	-18.13%	(23.6)	-0.4%
BRIERCROFT SA	LUBBOCK	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	238.5	(38.0)	-4.22%	*	*
CITY SLA	SAN ANGELO	JX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	499.2	(266.5)	-29.01%	*	*
STOCKTON SA	ADDISON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	499.2	(362.0)	-37.36%	*	*
MERABANK																					
BROWNFIELD SLA	BROWNFIELD	TX	27.0	NA	669.3	27.0	0.0	166.8	343.8	NA	216.4	258.3	292.4	664.3	(6.3)	(19.3)	20.5	(13.8)	-28.06%	(0.9)	-0.2%
FIRST FIN SA	EL PASO	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	207.6	(52.1)	-15.37%	*	*
STATE OF LUBBOCK	LUBBOCK	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	414.0	(596.8)	-63.33%	6.5	0.5%
LOAN STAR & GIBSON GROUP																					
AMERICAN BANK SA	DALLAS	TX	48.0	NA	1313.8	2379.2	0.0	495.1	1008.4	NA	481.4	617.3	317.3	752.2	19.9	1.4	16.9	(15.2)	-20.92%	48.6	1.6%
BEN MILAM SLA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	100.4	(181.4)	-53.73%	*	*
COMMERCE FSLA	COMMERCE	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	3.0	(3.3)	-10.04%	*	*
GLADEWATER FSLA	GLADEWATER	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	9.9	(11.3)	-31.70%	*	*
IRVING SA	IRVING	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	28.3	(68.5)	-54.35%	*	*
LONGVIEW SLA	LONGVIEW	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	32.1	(48.9)	-26.64%	*	*
MAJESTIC SA	MCKINNEY	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	125.8	(108.7)	-30.92%	*	*
MERCURY SA	WICHITA FALLS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	272.9	(263.5)	-44.99%	*	*
PARIS SLA	PARIS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	302.4	(166.5)	-38.66%	*	*
RICHARDSON SLA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	275.1	(177.3)	-20.81%	*	*

FISCAL YEAR 1988 CASE RESOLUTIONS

TRANSACTIONS ($ in millions)			(1) PRIVATE CAP CNT	(2) TAX EXP	(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(6) INDM AGR	(7) YLD MAINT AGRMNTS		(8) CAPITAL LOSS AGRMNTS		(9) OTHER		(10) ASSET COVERAGE	(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN	(13) TANG NW AFTER RSLTN	(14) CAP RES AFTER RSLTN
INSTITUTION	CITY	ST	CASH		PV	CASH	CASH	PV	CASH		PV	CASH	PV	CASH	PV	CASH					
SKYLINE SA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	51.8	(11.6)	-9.19%	*	*
SOUTHLAND	LONGVIEW	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	18.4	(6.3)	-17.87%	*	*
PULTE																					
ALLENPARK FSLA	HOUSTON	TX	45.0	NA	1102.0	2008.1	0.0	522.8	1039.7	NA	310.9	396.5	239.0	563.0	29.3	8.9	73.2	(28.9)	-14.49%	22.5	1.5%
BAY CITY FSLA	BAY CITY	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	122.1	(39.6)	-23.03%	*	*
GULF COAST SA	RICHMOND	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	28.7	(12.8)	-17.88%	*	*
CHAMPION	HOUSTON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	604.3	(370.9)	-35.92%	*	*
HEIGHT SA	HOUSTON	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	156.3	(227.2)	-48.16%	30.1	6.1%
CLUB CORP																					
CREDITBANC SA	AUSTIN	TX	30.0	NA	999.5	1620.5	0.0	262.9	523.4	NA	415.7	532.6	294.5	538.8	26.5	25.7	466.8	(322.8)	-37.40%	23.2	1.2%
FRANKLIN SA	AUSTIN	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	405.8	(355.8)	-48.04%	*	*
GREATWEST SB	AUSTIN	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	138.5	(31.1)	-15.36%	*	*
TEMPLE-INLAND/TRAMMELL CROW/BEST																					
DELTA SA	ALVIN	TX	145.0	NA	1550.2	2896.3	0.0	680.1	1391.6	*	540.3	700.1	329.8	804.6	0.0	0.0	142.5	(144.4)	-43.23%	96.7	2.3%
FIRST FSLA	AUSTIN	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	283.8	(131.3)	-11.21%	*	*
GUARANTY FSLA	DALLAS	TX	*	*	*	*	*	*	*	*	*	*	*	*	*	*	927.9	(1,018.1)	-38.20%	*	*
SUBTOTAL MERG/ACQ (SWEST PLAN)			436.1	NA	7900.8	12905.4	10.7	2709.8	5454.4	NA	2725.0	3394.1	2388.3	5258.3	67.3	8.0	7905.5	(5,587.6)	-30.96%	205.8	1.0%
TOTAL MERGERS/ACQUISITIONS			863.3	NA	11509.5	17410.1	1019.8	4858.0	8690.2	NA	2967.8	3675.0	2606.9	5529.1	-23.1	-277.2	17432.8	-8282.0	-29.52%	1095.4	2.0%

FISCAL YEAR 1988 CASE RESOLUTIONS

			(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN
INSTITUTION	CITY	STATE	PV	CASH		PV	CASH		
DEPOSITOR PAYOUTS									
NORTH AMERICA SLA, A FSLA	SANTA ANA	CA	133.2	212.3	212.3			-120.11	-56.5%
AMERICAN DIVERSIFIED SB	LODI	CA	797.6	1,155.8	1,155.8			-679.11	-58.3%
FARMERS SAVINGS, A FSLA	DAVIS	CA	198.9	287.3	287.3			-195.94	-58.7%
UNIVERSAL SA, A FSLA	CHICKASHA	OK	35.8	75.3	75.3			-30.35	-35.6%
TOTAL DEPOSITOR PAYOUTS			1165.5	1730.7	1730.7	0.0	0.0	-1025.5	-57.1%
DEPOSITOR TRANSFERS									
SIERRA SLA	MINDEN	NE	5.4	12.4	12.4			-1.01	-7.7%
TRI-COUNTY SLA	CAMDEN	NJ	22.5	44.6	44.6			-20.2	-35.6%
VERNON SLA	DALLAS	TX	1,260.1	1,366.8	202.4		1,164.4	-725.83	-42.0%
BOHEMIAN SLA	ST LOUIS	MO	97.2	175.4	175.4			-105.3	-47.0%
FIRST SA OF EAST TEXAS	SAN AUGUSTINE	TX	88.0	134.6	134.6			-72.36	-54.0%
CITIZENS SLA, A FSLA	SALEM	OR	141.3	145.8	45.8		100.0	-132.73	-56.0%
TERRITORY SLA	SEMINOLE	OK	46.2	67.8	47.8		20.0	-41.86	-57.3%
MT WHITNEY SLA	EXETER	CA	46.4	76.3	76.3			-42.47	-54.1%
RAMONA FSLA	ORANGE	CA	76.3	109.5	109.5			-66.43	-57.5%
FIRST FSLA	PADUCAH	KY	52.3	149.2	149.2			-38.86	-23.2%
INVESTORS SLA, A FSLA	EL RENO	OK	40.7	92.0	92.0			-37.62	-34.5%
UNITED SAVINGS, A FSLA	DURANT	OK	44.1	87.9	87.9			-25.8	-24.0%

FISCAL YEAR 1988 CASE RESOLUTIONS

			(3) TOTAL COST TO FSLIC		(4) UPFRONT CASH	(5) NOTES		(11) TANG NW BEFORE RSLTN	(12) CAP RES BEFORE RSLTN
INSTITUTION	CITY	STATE	PV	CASH		PV	CASH		
FIRST FSLA	SHAWNEE	OK	55.8	143.7	143.7			-30.33	-18.8%
AMERICAN FSLA	ANDERSON	IN	67.2	168.7	168.7			-50.82	-26.0%
CARDINAL SB, INC	NEWPORT	NC	34.4	89.9	89.9			-25.89	-21.7%
LARUE FSLA	HODGENVILLE	KY	6.9	16.5	16.5			-4.65	-28.0%
THE AMERICAN FSLA	ANADARKO	OK	111.8	144.2	144.2			-97.06	-57.4%
VICTOR SLA, A FSLA	MUSKOGEE	OK	241.0	348.2	70.0		278.2	-183.88	-44.4%
ULTIMATE SB, FSB	RICHMOND	VA	55.8	181.3	181.3			-30.09	-14.0%
PEOPLES SLA	LA GRANDE	OR	15.7	18.0	18.0			-12.56	-39.2%
TOTAL DEPOSITOR TRANSFERS			2,509.0	3,572.8	2,010.2	0.0	1,562.6	(1,745.8)	-40.0%

TABLE VI. NOTES

The notes below correspond to the column number and heading on the Table VI. report.

(1) Private Capital Contribution (PRIVATE CAP CNT)

A cash figure representing the acquirors contribution to the acquisition, and includes cash, subordinated debt, and/or other initial capital. Other initial capital may include one or more of: 1) initial capital infusion other than cash or subordinated debt such as securities, or, 2) for mergers with capital maintenance agreements but with no upfront cash infusion specified, 3% of liabilities of the acquired association.

(2) Tax Expenditures (TAX EXP)

This information is not available because as is noted by the responses to Question 5 and Table X., FSLIC has not normally included, as an element of its cost to resolve calculations the cost of tax expenditures that could result from the assistance provided to acquirers.

(3) Total Cost to FSLIC

Represents the estimated present value and cash cost of resolution, as prepared by FSLIC`s Analysis and Evaluation Division, prior to the resolution.

(4) Upfront Cash

Represents the initial cash contribution made by FSLIC immediately following Federal Home Loan Bank Board approval of the resolution package.

(5) Notes

Represents the present value and cash estimates of promissory notes to be provided by FSLIC in the case resolution. These figures include both principal and interest.

(6) Indemnification Agreements (INDMN AGRMNTS)

FSLIC does not include an estimated cost of the indemnification agreement. Historically, FSLIC has not been subject to any costs in this category.

(7) Yield Maintenance Agreements (YLD MAINT AGRMNTS)

Represents the present value and cash estimates of the yield maintenance agreement to be provided by FSLIC in the case resolution.

(8) Capital Loss Agreements (CAPITAL LOSS AGRMNTS)

Represents the present value and cash estimates of the capital loss coverage to be provided by FSLIC in the case resolution.

(9) Other

Represents other potential income and expense items to FSLIC such as legal expenses, warrants, dividends, etc.

(10) Asset Base Coverage (ASSET COVERAGE)

The prototype table provided by the Committee requested three separate columns: 1) Asset Base covered by Yield Maintenance, 2) Asset Base covered by Capital Loss Agreements, and 3) Common Asset Base coverage. Because the number shown in each column would have been identical to one another, the three columns were collapsed into one.

(11) Tangible Net Worth Prior to Resolution (TANG NW BEFORE RESLTN)

The Committee requested "Net Worth (+/- prior to resolution)". It was unclear whether the Committee would have preferred RAP, GAAP, or Tangible net worth. FSLIC has provided tangible net worth as we feel it is the most meaningful of the three numbers.

(12) Capital Reserve, as a percent of liabilities, prior to Resolution (CAP RES BEFORE RESLTN)

The percentage provided represents the tangible net worth (shown in column 11) divided by the institutions liabilities, prior to resolution.

(13) Tangible Net Worth After Resolution (TANG NW AFTER RESLTN)

The Committee requested "Net Worth (+/- after to resolution)". It was unclear whether the Committe would have preferred RAP, GAAP, or Tangible net worth. FSLIC has provided tangible net worth as we feel it is the most meaningful of the three numbers.

(14) Capital Reserve, as a percent of liabilities, after Resolution (CAP RES AFTER RESLTN)

The percentage provided represents the tangible net worth (shown in column 13) divided by the acquiring institutions liabilities, after resolution.

* Denotes jointly marketed associations with the package total provided at the first institution.

NA: Not available

TABLE VII. FICO CASH FLOW

TABLE VII: FICO CASH FLOW

Fiscal Year Cash Flow

		1987	1988	1989	1990	1991	1992	1993	1994
	FUNDS IN:								
A	Funds fr FHLBanks	30.000,000	321,000,000	299,250,000	213,585,000	0	0	0	0
B	Bond Proceeds	0	3,750,000,000	3,750,000,000	3,325,000,000	0	0	0	0
C	Inv Income	44.932	5,069,917	11,958,026	24,000,000	30,000,000	30,000,000	30,000,000	30,000,000
D	Ind Assessment	2,914,395	252,767,209	619,604,875	1,003,241,463	1,043,355,392	1,043,355,392	1,043,355,392	1,043,355,392
E	Other	0	0	0	0	0	0	0	0
F	TOTAL	32,959,327	4,328,837,126	4,680,812,901	4,565,826,463	1,073,355,392	1,073,355,392	1,073,355,392	1,073,355,392
	FUNDS OUT:								
G	Zero Purchase	29,930,959	296,665,598	323,653,443	213,585,000	0	0	0	0
H	FSLIC Stk Purchase	0	308,000,000	342,250,000	213,585,000	0	0	0	0
I	FSLIC Ctf Purchase	0	3,442,000,000	3,407,750,000	3,111,415,000	0	0	0	0
J	Accrued Int	0	208,330,694	620,817,720	997,299,763	1,072,507,692	1,072,507,692	1,072,507,692	1,072,507,692
K	Prin Payments	0	0	0	0	0	0	0	0
L	Is/Cus/Dis/Pro/Con	280	43,406,960	19,803,700	29,941,700	847,700	847,700	847,700	847,700
M	TOTAL	29,931,239	4,298,403,252	4,714,274,863	4,565,826,463	1,073,355,392	1,073,355,392	1,073,355,392	1,073,355,392
N	NET CASH FLOW	3,028,088	30,433,874	(33,461,962)	0	0	0	0	0
	CUMULATIVE NET CASH FLOW	3,028,088	33,461,962	0	0	0	0	0	0
	CONSISTING OF:								
P	DEFERRED	2.959,047	9,058,519	0	0	0	0	0	0
Q	UNUSED BANK FUNDS	69,041	24,403.443	0	0	0	0	0	0
R	ACCRETION NBS	13,070	18,441,400	41,910,953	56,206,468	61,146,742	66,711,299	72,384,842	78,747,119

DESCRIPTION OF TERMS FOR THE FICO FISCAL YEAR CASH FLOW TABLE

The FICO Fiscal Year Cash Flow Table displays the breakdown of funds coming in to and funds going out of FICO for each individual Fiscal Year from FY87 through FY94. The table also shows the breakdown of the resulting net cash flow figures as well as FICO's accretion amounts for non-interest bearing securities held to defease the outstanding debt. These numbers are all yearly flows and are not cumulative. Actual figures were used, where applicable. The following is a brief description of the terms used in the table, including all relevant assumptions relating to each term:

A) **Funds From FHLBanks** - The amount of assessment received from the FHLBanks. The FHLBanks have been authorized to provide up to $3 billion to capitalize FICO, of which $2.2 billion is earmarked for the purpose of purchasing noninterest bearing securities to defease the principal portion of FICO debt at maturity. It is assumed in this analysis that these funds will be used only for the purchase of zeros. The assumed price is 7.98% of par, equal to FICO's average price of zeros from inception through mid December 1988. Line "A" should equal lines G plus Q.

B) **Bond Proceeds** - The gross bond proceeds from FICO issues, assuming issuance of the maximum $3.75 billion per Fiscal Year. Although the limitation applies to the one year periods from the establishment of FICO (August 10, 1987), a fiscal year analysis approximates this time frame. In FY87 an issue was announced and priced at the end of the fiscal year but did not settle until the beginning of the next fiscal year. The same situation is projected for FY89. In both cases the proceeds are shown to be received during the fiscal year in which the issue settled.

C) **Investment Income** - Investment income earned by FICO on all balances held. Actual figures were used where available. Income was assumed to be $1 million per month for the remainder of FY89, to match recent monthly income figures. Income for FY90 and FY91 and beyond were assumed to be $2 million and $2.5 million per month, respectively. These figures were calculated by approximating the balance held for future interest payment (half of the year's accruing interest) and multiplying this by 6%. This is considered to be a conservative estimate.

D) **Industry Assessment** - Total FICO assessment of the Thrift Industry. Projected amounts were calculated by adding the year's accrued interest, issuance, custodial, price discount, and concession costs, and subtracting price premiums and investment income. Therefore, line D should equal the sum of lines J and L minus line C.

E) **Other** - No other source of funds can be identified that is both probable and measurable. Any termination assessments received by FICO from institutions exiting the system would, however, be used to reduce industry assessments (line D). Currently, there is a moratorium on institutions exiting that extends into August 1989.

F) **Total (Funds In)** - The sum of lines A through E.

G) **Zero Purchase** - The total amount paid by FICO for zero's in a given fiscal year for the purpose of defeasing the principal portion of FICO issues. This number is generally equal to line "A" above but may differ slightly due to timing differences in the assessment of the FHLBanks and the subsequent purchase of the zeros. Here again a price of zero's of 7.98% of par was used for projecting future purchases of zero's.

H) **FSLIC Stock Purchase** - The total amount of FSLIC nonvoting capital stock purchased by FICO in a given fiscal year. This number is generally equal to line "A" above but may differ slightly due to timing differences in the assessment of the industry and the subsequent issues of FICO debt, the proceeds of which are used to purchase FSLIC stock and capital certificates.

I) **FSLIC Certificate Purchase** - The total amount of FSLIC nonredeemable capital certificates purchased by FICO in a given fiscal year. At any given time, this number plus the amount of FSLIC nonvoting capital stock outstanding should equal the total amount of gross proceeds from FICO issues.

J) **Accrued Interest** - The total amount of interest accruing on all outstanding FICO issues for a given fiscal year. This assumes bimonthly issues of between $500 and $700 million until the $10.825 billion limit is reached. A coupon rate of 9.91% was assumed, representing the weighted average FICO coupon rate to date.

K) **Principal Payment** - The total amount of principal repayed to investors. It was assumed that principal would not be repaid on any FICO issues until maturity and that no issues would mature prior to the end of FY94.

L) **Issuance/Custodial/Discounts/Premiums/Concession Fees** - This category includes five items. Issuance costs are the total of designated issuance expenses, including legal and accounting fees and FED charges for securities processing. Actual figures were used for FY87 and FY88. The proposed budget amount for calendar year 1989 was used for FY89 and FY90. Thereafter, a nominal amount of $300,000 was used to estimate continuing costs, including securities processing. Custodial costs are the costs for maintaining the segregated account for the zero's. This cost was projected to be $2500 per fiscal year. Discounts are payed out in full at the time of settlement of the issue. Therefore, these costs are shown in total during the fiscal year in which settlement occurs. A price discount of .875% is assumed for remaining issues. Premiums are received in full at the time of settlement of the issue. Therefore, these costs are deducted in total from amounts payed out during the fiscal year in which settlement occurs. No premiums are assumed for remaining issues. Concession fees are payed out in full at the time of settlement of the issue Therefore, costs are shown in total during the fiscal year in which settlement occurs. No concession fees were assumed for remaining issues. Under the bidding process currently used by FICO to issue debt, issues generally are priced at a discount, part of which may act as compensation for the purchaser in lieu of concession fees.

M) Total (Funds Out) - The sum of lines G through L above.

N) Net Cash Flow - The difference between funds received by FICO and the funds payed out by FICO (including accrued expenses earmarked for payout) for a given fiscal year. This figure would ideally be zero and is projected as such. In fiscal years in which actual figures were used, a nonzero figure may appear here as a result of net amounts appearing in the accounts described below.

P) Deferred - That portion of the net funds inflow for a given fiscal year that is shown as deferred for the purposes of paying future issuance, accrued interest, and custodial costs. This results from the uneven distribution of insurance premiums received by FICO, and from the correction of variances between projected costs used to calculate assessments and corresponding actual figures.

Q) Unused Bank Funds - That portion of the FHLBanks assessment collected in a given fiscal year that is being held for subsequent purchase of zeros as a result of timing differences between the collection of these funds and their use.

R) Accretion NBS - The amount of accretion income that is booked by FICO during a given fiscal year. This income is not realized since the zeros must be held to maturity to ultimately defease the principal portion of FICO issues.

TABLE VIII. ASSET BASE AND INSTITUTION COVERAGE

TABLE VIII: ASSET BASE AND INSTITUTION COVERAGE
($ in billions)

Table A: ALL FSLIC INSURED INSTITUTIONS

				DEPOSITS	
FISCAL YEAR	TOTAL INSTITUTIONS	TOTAL ASSETS	TOTAL DEPOSITS	LESS THAN $100,000	GREATER THAN $100,000
1987	3178	$1,218.8	$908.9	$789.5	$119.4
1988	3024	$1,323.4	$937.6	$841.8	$131.8
1989	2822	$1,418.7	$1,005.1	$902.4	$141.3
1990	2683	$1,520.8	$1,077.5	$967.4	$151.5
1991	2658	$1,630.3	$1,155.1	$1,037.0	$162.4
1992	2633	$1,747.7	$1,238.2	$1,111.7	$174.1
1993	2608	$1,873.5	$1,327.4	$1,191.7	$186.6
1994	2583	$2,008.4	$1,422.9	$1,277.5	$200.0

Notes:

1. The growth scenario of total assets and deposits assumes an annual growth rate of 7.2 percent.

2. For purposes of preparing a required response, certain assumptions were made concerning the number of future FSLIC case resolutions, an annual attrition rate, and a rate of voluntary industry mergers. FSLIC does not normally prepare projections as requested here, therefore the assumptions do not reflect FSLIC on FHLBank Board policies. The net result of these assumptions is shown above.

Table B: FSLIC INSURED INSTITUTIONS RECEIVING FSLIC ASSISTANCE AT 9/30/1988

				DEPOSITS	
FISCAL YEAR	TOTAL INSTITUTIONS	TOTAL ASSETS	TOTAL DEPOSITS	LESS THAN $100,000	GREATER THAN $100,000
1988	158	$446.6	$298.8	$251.6	$47.2
1989	158	$478.8	$320.3	$269.7	$50.6
1990	158	$513.2	$343.4	$289.1	$54.2
1991	158	$550.2	$368.1	$310.0	$58.1
1992	158	$589.8	$394.6	$332.3	$62.3
1993	158	$632.3	$423.0	$356.2	$66.8
1994	158	$677.8	$453.5	$381.8	$71.6

Notes:

1. The growth scenario of total assets and deposits assumes an annual growth rate of 7.2 percent.

2. FSLIC has chosen not to project the number of new institutions which may receive FSLIC assistance in the future. To do so requires projecting resolution of specific institutions at specific times, a process which is not

done, except for the near term.

Table C: CURRENT AND PROJECTED FSLIC INSURED INSTITUTIONS ON THE FSLIC CASELOAD

FISCAL YEAR	TOTAL INSTITUTIONS	TOTAL ASSETS	TOTAL LIABILITIES
1988	277	$106.97	$117.75

Notes:

1. Total Liabilities are provided as Total Deposits were not available.
2. FSLIC has chosen not to project the number of new institutions which may be placed on the FSLIC caseload in the future. To do so requires projecting specific institutions at specific times, a process which is not done, except for the near term. Likewise, we prefer to not project the growth of the assets and liabilities of the thrifts in the case load as of 9/30/1988 because their impending resolution diminishes the relevance of such date.

TABLE IX. FSLIC-HELD ASSETS

TABLE IX: FSLIC-HELD ASSETS

The table below details the activity to FSLIC-Corporate balance sheet account: Real Estate, Mortgage Loans, and Other Assets, over fiscal years 1987 and 1988. These assets were acquired as a result of FSLIC fulfilling its insurance obligation. Because FSLIC does not project th resolution of specific institutions at specific future points in time, except for the near term, it is not possible to project the assets which may be acquired as a result of those resolutions.

	($ in Millions)
$355.6	FISCAL YEAR 1986 Balance
$52.6	Acquisitions in FY '87
($91.7)	Liquidations in FY '87

$316.5	Subtotal
($28.5)	Adjustment *

$288.0	FISCAL YEAR 1987 Balance
$1,038.9	Acquisitions in FY '88
($77.7)	Liquidations in FY '88

$1,249.2	Subtotal
($109.5)	Adjustment *

$1,139.7	FISCAL YEAR 1988 Balance

* The adjusted amount includes the net change in the Allowance for Loss, Write-ups, Write-downs, Reclassifications, and Amoritization of Discount on Loans.

TABLE X. TAX EXPENDITURES

TABLE X: TAX EXPENDITURES

The role of tax benefits/expenditures associated with FSLIC case resolutions is of particular concern to FSLIC because its represents a major item which reduces FSLIC`s assistance cost, even though FSLIC is not a tax-paying entity. These tax benefits are, in essence, an additional asset that as part of a package can reduce other payments to the acquirer. This reduction in FSLIC`s cost of the transaction can occur through explicit sharing of the tax benefits or through better terms for FSLIC on other parts of the assistance agreement--e.g., a larger share of the profits of or warrants in the resulting thrift, a lower cash payment by FSLIC or a smaller promissory note issued, a lower rate of interest on the FSLIC note, a lower rate of yield maintenance on certain assets, a greater amount of loss absorption by the acquirer, etc. If these tax benefits were not available, FSLIC would have to make commensurately larger direct payments in some other form. Although these tax benefits reduce the Federal Government`s tax receipts, FSLIC`s maximizes their use, as intended by Congress when it recently extended their duration and scope, to support FSLIC`s efforts as a federal deposit insurer.

Any estimates of tax benefits/expenditures accompanying FSLIC case resolutions are necessarily approximations, since the tax-paying status of the resulting entity or acquirer over the next ten years is difficult to predict. Variations in the profitability of the thrift itself and of the other enterprises (if any) of the acquirer could affect the utilization of these tax benefits, as could other possible tax-shielding efforts by the acquirer and changes in the tax laws themselves. The extent of the tax benefits are also related to the sizes of the eventual losses on assets covered by capital-loss guarantees, which themselves are only estimates.

Nevertheless, FSLIC has estimated the tax benefits of all cases resolved in calendar year 1988. This analysis and its accompanying footnotes follow.

ESTIMATED TAX BENEFITS
Cases Processed From 1/1/88 to 12/31/88
(in millions)

CASE #	ACQUIRER	BENEFITS OF FSLIC ASSIST.	% TO FSLIC	AMOUNT TO FSLIC	AMOUNT TO ACQUIRER
C-322	Home FSLA	0.9	7%	0.1	0.8
C-323	Atlantic Financial	12.0	100%	12.0	0.0
C-324	Great West SB	0.0	100%	0.0	0.0
C-325	Statesman FSB	23.5	4%	0.9	22.7
C-326	Sterling SA	1.9	29%	0.6	1.4
C-327	Lemont FSB	0.0	100%	0.0	0.0
C-328	Home FSLA	0.3	0%	0.0	0.3
C-329	Raritan Valley SLA	8.4	0%	0.0	8.4
C-330	Eureka FSLA	44.8	89%	40.0	4.8
C-331	First SA	0.8	29%	0.2	0.5
C-332	Security First	0.9	54%	0.5	0.4
C-333	Muskegon FSLA	0.2	100%	0.2	0.0
C-334	Eureka FSLA	1.0	0%	0.0	1.0
C-335	World SLA	1.9	65%	1.3	0.7
SW-001	Coastal Banc	6.1	100%	6.1	0.0
SW-002	Southwest SA	13.0	100%	13.0	0.0
C-336	River Valley FSB	5.1	6%	0.3	4.8
C-337	Rock Falls SB	0.0	100%	0.0	0.0
C-338	First FSB	1.2	41%	0.5	0.7
C-339	United Savings	0.0	100%	0.0	0.0
C-340	Standard FSLA	0.1	90%	0.1	0.0
C-341	First FB FSB	0.0	100%	0.0	0.0
C-342	Metropolitan FSB	1.6	0%	0.0	1.6
C-343	Washington Federal	0.0	100%	0.0	0.0
C-344	Old Stone Bank	5.3	9%	0.5	4.9
C-345	Security Trust FSLA	0.2	100%	0.2	0.0
C-346	First FSB & Trust	0.1	100%	0.1	0.0
C-347	BK Bancshares INC	0.4	11%	0.1	0.4
C-349	United Savings	0.0	100%	0.0	0.0
C-350	Secor FSB	0.1	100%	0.1	0.0
C-351	Washington FSLA	6.0	100%	6.0	0.0
C-352	Western FSLA	101.9	9%	8.7	93.3
C-353	Home Federal SLA	0.0	100%	0.0	0.0
C-354	Union FSB	2.7	11%	0.3	2.4
C-356	Butterfield SLA	11.2	0%	0.0	11.2
C-357	1st Federal Bank	1.7	19%	0.3	1.4
C-358	American SB	0.0	100%	0.0	0.0
C-359	Tracy SB	0.6	30%	0.2	0.4
C-360	First FSB of Indiana	3.8	0%	0.0	3.8
C-361	Republic SB	3.8	85%	3.3	0.6
C-362	New Peoples FSB	1.8	43%	0.8	1.0
C-363	Crossland Savings FS	0.0	100%	0.0	0.0
C-364	1st Nationwide FSB	8.2	0%	0.0	8.2
C-365	Flagship FSLA	0.0	100%	0.0	0.0
C-366	Liberty FSB	0.3	19%	0.1	0.3
SW-004	American Fed. Bank	348.8	100%	347.7	1.1
SW-006	Merabank of Texas	7.4	100%	7.4	0.0
SW-013	First Heights FSA	298.7	65%	194.5	104.2
SW-015	Guaranty FSB	42.5	24%	10.2	32.3
SW-016	Franklin Fed.Bancorp	10.0	100%	10.0	0.0
SW-017	Nuolney S&LA	60.3	60%	36.2	24.1
SW-018	Americity Fed.Saving	5.1	100%	5.1	0.0
C-367	Earley Invest. Grp.	0.3	0%	0.0	0.3
C-368	1st Western	0.0	100%	0.0	0.0
C-369	Pacific First Bk.	37.9	59%	22.5	15.4
C-370	First FSLA	2.9	*	0.2	2.7
C-371	Golden West	14.3	*	9.2	5.1
C-372	First Nationwide	23.9	0%	0.0	23.9
C-373	Citicorp Mtg	2.7	100%	2.7	0.0
C-374	Ryan Financial	10.9	24%	2.6	8.3
C-375	MNC Financial	1.6	0%	0.0	1.6
C-376	Equimark	11.3	81%	9.1	2.2
C-377	Barnett Bank	0.6	100%	0.6	0.0
C-378-9	Bass Group	874.7	75%	656.0	218.7
C-380	Citizens FSB	5.9	59%	3.5	2.4
C-381	Jackson County	9.8	43%	4.2	5.6

ESTIMATED TAX BENEFITS
Cases Processed From 1/1/88 to 12/31/88
(in millions)

CASE #	ACQUIRER	BENEFITS OF FSLIC ASSIST.	% TO FSLIC	AMOUNT TO FSLIC	AMOUNT TO ACQUIRER
C-381	Jackson County	9.8	43%	4.2	5.6
C-382	Community Holdings	5.4	*	1.2	4.2
C-383	First Nationwide	648.9	73%	475.9 (b)	173.0
C-384	Metropolitan FB	13.2	0%	0.0	13.2
C-385	Western FSLA	1.3	85%	1.1	0.2
C-386	Home Federal	31.2	8%	2.4	28.8
C-387	South East Holding	0.0	100%	0.0	0.0
C-388	Golden West	182.8	60%	109.7 (a)	73.1
C-389	Coast to Coast	49.4	0%	**	49.4
C-390	First Network SB	5.9	10%	0.6	5.3
C-391	River Valley SB	3.5	100%	3.5	0.0
C-392	Cal Fed.	37.8	30%	11.3	26.5
C-393	Michigan National	158.5	47%	73.9	84.6
C-394	Home FSLA	1.8	0%	0.0	1.8
SW-020	CFSB Corp	298.7	27%	82.0 (c)	216.7
SW-021	Utley Ford	1,486.8	29%	437.3 (d)	1,049.5
SW-022	Pacific USA	174.1	25%	43.5	130.6
SW-023	Centex Corp	109.1	42%	45.7 (e)	63.4
SW-024	Local FS&LA	2.5	51%	1.3	1.2
SW-025	Hyperion Ptr., LP	31.1	42%	13.0 (f)	18.1
SW-026	Northwest Federal	4.4	0%	0.0	4.4
	TOTAL	5,288.1		2,720.4	2,567.7

ASSUMPTIONS:

- Rates used to determine the amount of Tax Benefits are based on both the Regular Tax Method and the Alternative Minimum Tax Method;
- Benefits are calculated over a 10 year period and then discounted to the present at FSLIC's marginal cost of funds;
- Tax benefit items are interest on notes, built in losses, guaranteed yield, preacquisition NOLs, and any other specified assistance payments;
- FSLIC's prorata share of tax benefits is not always in the same proportion for each type of assistance provided; FSLIC's share reflected in the schedule is a weighted average of the total amount.

Asterisks/Footnotes

* - Tax Benefits to FSLIC represent contractually guaranteed amounts.

** - As part of the Agreement, FSLIC is to receive 22.5% of GAAP income of resulting thrift, before income taxes, for the term of the Agreement.

(a)- The tax benefit item shown consists entirely of interest on the promissory note. The acquisition by Golden West Financial Corporation of this institution (Beach) is subject to specific future events. The subsequent acquisition will cause the interest rate on the note to drop precipitously, thereby decreasing substantially the tax benefit items.

(b)- Rate on note was adjusted downward to account for tax free status.

(c)- FSLIC is entitled to 33 1/3% of all tax benefits realized but is guaranteed minimum tax benefits of $11.1 million (NPV).

(d)- FSLIC is entitled to 33 1/3% of all tax benefits realized calculated at a 30% tax rate. Assistance payments are tax effected on this basis but FSLIC is guaranteed a minimum of $30 million each year of the Agreement.

(e)- Negative Net Worth Note was reduced by $13.2 million as a prepayment of the estimated tax benefits due FSLIC for 1988; this amount is subject to adjustment after tax return is filed.

(f)- Resulting entity will not generate sufficient taxable income to take advantage of most of the tax benefit items.

ESTIMATED TAX BENEFITS
Cases Processed From 1/1/88 to 12/31/88
(in millions)

CASE #	ACQUIRER	1 NET PV OF COST OF SOLUTION	2 ADJUSTED NPV OF COST OF SOLUTION	3 AGGREGATE TAX BENEFITS OF ASSIST. PMTS.	4 IMPUTED COST OF SOLUTION	5 ESTIMATED COST OF LIQUIDATION	6 NET SAVINGS OF SOLUTION
C-322	Home FSLA	13.1	13.0	0.9	13.9	13.8	(0.1)
C-323	Atlantic Financial	81.5	69.5	12.0	81.5	107.1	25.6
C-324	Great West SB	3.3	3.3	0.0	3.3	5.9	2.6
C-325	Statesman FSB	154.1	153.2	23.5	176.8	207.1	30.3
C-326	Sterling SA	15.8	15.2	1.9	17.2	20.8	3.6
C-327	Lemont FSB	6.5	6.5	0.0	6.5	9.6	3.1
C-328	Home FSLA	7.1	7.1	0.3	7.4	18.0	10.6
C-329	Raritan Valley SLA	72.1	72.1	8.4	80.5	105.3	24.8
C-330	Eureka FSLA	303.5	263.5	44.8	308.3	395.9	87.6
C-331	First SA	9.5	9.3	0.8	10.0	10.3	0.3
C-332	Security First	9.6	9.1	0.9	10.0	12.6	2.6
C-333	Muskegon FSLA	4.0	3.8	0.2	4.0	17.5	13.5
C-334	Eureka FSLA	9.3	9.3	1.0	10.3	13.1	2.8
C-335	World SLA	6.0	4.7	1.9	6.7	10.9	4.2
SW-001	Coastal Banc	141.1	135.0	6.1	141.1	156.3	15.2
SW-002	Southwest SA	2,115.3	2,102.3	13.0	2,115.3	2,502.7	387.4
C-336	River Valley FSB	34.2	33.9	5.1	39.0	45.0	6.0
C-337	Rock Falls SB	17.8	17.8	0.0	17.8	20.9	3.1
C-338	First FSB	14.2	13.7	1.2	14.9	19.8	4.9
C-339	United Savings	2.7	2.7	0.0	2.7	8.7	6.0
C-340	Standard FSLA	16.7	16.6	0.1	16.7	48.1	31.4
C-341	First FB FSB	12.2	12.2	0.0	12.2	19.3	7.1
C-342	Metropolitan FSB	299.0	299.0	1.6	300.6	414.6	114.0
C-343	Washington Federal	2.4	2.4	0.0	2.4	5.9	3.5
C-344	Old Stone Bank	40.1	39.6	5.3	45.0	65.2	20.2
C-345	Security Trust FSLA	17.1	16.9	0.2	17.1	20.1	3.0
C-346	First FSB & Trust	(0.5)	(0.6)	0.1	(0.5)	12.9	13.4
C-347	BK Bancshares INC	24.4	24.3	0.4	24.8	32.5	7.7
C-349	United Savings	3.6	3.6	0.0	3.6	10.5	6.9
C-350	Secor FSB	13.0	12.9	0.1	13.0	15.3	2.3
C-351	Washington FSLA	29.3	23.3	6.0	29.3	45.2	15.9
C-352	Western FSLA	565.8	557.1	101.9	659.1	700.1	41.0
C-353	Home Federal SLA	5.0	5.0	0.0	5.0	10.3	5.3
C-354	Union FSB	35.0	34.7	2.7	37.4	44.9	7.5
C-356	Butterfield SLA	281.2	281.2	11.2	292.4	336.6	44.2
C-357	1st Federal Bank	8.4	8.1	1.7	9.8	10.1	0.3
C-358	American SB	5.7	5.7	0.0	5.7	10.1	4.4
C-359	Tracy SB	3.0	2.8	0.6	3.4	7.8	4.4
C-360	First FSB of Indiana	28.8	28.8	3.8	32.6	30.2	(2.4)
C-361	Republic SB	25.2	21.9	3.8	25.8	28.0	2.2
C-362	New Peoples FSB	34.9	34.1	1.8	35.9	70.0	34.1
C-363	Crossland Savings FS	11.8	11.8	0.0	11.8	25.1	13.3
C-364	1st Nationwide FSB	148.7	148.7	8.2	156.9	224.2	67.3
C-365	Flagship FSLA	23.8	23.8	0.0	23.8	29.3	5.5
C-366	Liberty FSB	10.3	10.2	0.3	10.6	14.7	4.1

ESTIMATED TAX BENEFITS
Cases Processed From 1/1/88 to 12/31/88
(in millions)

CASE #	ACQUIRER	1 NET PV OF COST OF SOLUTION	2 ADJUSTED NPV OF COST OF SOLUTION	3 AGGREGATE TAX BENEFITS OF ASSIST. PMTS.	4 IMPUTED COST OF SOLUTION	5 ESTIMATED COST OF LIQUIDATION	6 NET SAVINGS OF SOLUTION
SW-004	American Fed. Bank	1,313.8	966.1	348.8	1,314.9	1,518.8	203.9
SW-006	Merabank of Texas	669.3	661.9	7.4	669.3	722.1	52.8
SW-013	First Heights FSA	1,102.0	907.5	298.7	1,206.2	1,274.5	68.3
SW-015	Guaranty FSB	1,489.1	1,478.9	42.5	1,521.4	2,170.0	648.6
SW-016	Franklin Fed.Bancorp	999.5	989.5	10.0	999.5	1,063.0	63.5
SW-017	Nuolney S&LA	1,320.8	1,284.6	60.3	1,344.9	1,668.2	323.3
SW-018	Americity Fed.Saving	160.8	155.7	5.1	160.8	158.3	(2.5)
C-367	Earley Invest. Grp.	14.0	14.0	0.3	14.3	33.1	18.8
C-368	1st Western	2.0	2.0	0.0	2.0	8.7	6.7
C-369	Pacific First Bk.	167.5	145.0	37.9	182.9	241.6	58.7
C-370	First FSLA	19.5	19.3	2.9	22.2	22.5	0.3
C-371	Golden West	90.7	88.0	14.3	102.3	110.1	7.8
C-372	First Nationwide	118.3	118.3	23.9	142.2	251.1	108.9
C-373	Citicorp Mtg	20.3	17.6	2.7	20.3	35.7	15.4
C-374	Ryan Financial	66.4	63.8	10.9	74.7	142.5	67.8
C-375	MNC Financial	13.5	13.5	1.6	15.1	102.9	87.8
C-376	Equimark	146.8	137.7	11.3	149.0	201.8	52.8
C-377	Barnett Bank	4.9	4.3	0.6	4.9	30.8	25.9
C-378-9	Bass Group	1,699.0	1,695.5	874.7	2,570.2	3,333.0	762.8
C-380	Citizens FSB	187.9	184.4	5.9	190.3	253.1	62.8
C-381	Jackson County	62.5	62.7	9.8	72.5	86.7	14.2
C-382	Community Holdings	54.8	54.7	5.4	60.1	79.3	19.2
C-383	First Nationwide	1,684.5	1,684.5	648.9	2,333.4	2,430.7	97.3
C-384	Metropolitan FB	59.6	59.6	13.2	72.8	75.5	2.7
C-385	Western FSLA	11.4	10.3	1.3	11.6	22.9	11.3
C-386	Home Federal	243.3	253.8	31.2	285.0	320.4	35.4
C-387	South East Holding	29.0	29.0	0.0	29.0	234.5	205.5
C-388	Golden West	978.3	868.6	182.8	1,051.4	1,026.9	(24.4)
C-389	Coast to Coast	385.1	385.1	49.4	434.5	462.2	27.7
C-390	First Network SB	33.8	40.9	5.9	46.8	41.6	(5.2)
C-391	River Valley SB	17.4	13.9	3.5	17.4	30.3	12.9
C-392	Cal Fed.	151.1	139.8	37.8	177.6	184.7	7.1
C-393	Michigan National	983.1	1,031.5	158.5	1,190.0	1,181.2	(8.8)
C-394	Home FSLA	8.0	8.0	1.8	9.8	13.0	3.2
SW-020	CFSB Corp	1,846.3	1,775.4	298.7	2,074.1	2,117.0	42.9
SW-021	Utley Ford	5,046.4	4,913.3	1,486.8	6,400.1	6,822.3	422.2
SW-022	Pacific USA	566.2	522.7	174.1	696.8	662.2	(34.6)
SW-023	Centex Corp	374.5	328.8	109.1	437.9	463.7	25.8
SW-024	Local FS&LA	89.0	87.7	2.5	90.2	145.2	55.0
SW-025	Hyperion Ptr., LP	1,372.2	1,365.2	31.1	1,396.3	1,492.0	95.7
SW-026	Northwest Federal	78.3	78.3	4.4	82.7	113.9	31.2
	TOTAL	28,346.5	27,230.7	5,288.1	32,518.8	37,280.3	4,761.5

TABLE XI. CONTINUING INSURANCE OBLIGATION AFTER RESOLUTION

TABLE XI: CONTINUING INSURANCE OBLIGATION AFTER RESOLUTIONS

Part I.	Total deposit dollars (in millions) which through one of the four categories have left the FSLIC insurance system			Total commitment dollars which have left the FSLIC insurance system		
	FY 1987	FY 1988	FY 1989-FY 1994	FY 1987	FY 1988	FY 1989-FY 1994
1. Depositor Payouts	$242.13	$1,762.61	$0.00 (1)	$0.00	$0.00	$0.00 (2)
2. Deposit transfers to FDIC-insured institutions	$0.00	$0.00	$0.00 (2)	$0.00	$0.00	$0.00 (2)
3. Exit of FSLIC-insured institutions to FDIC insurance	$7,434.41	$3,328.79	$0.00 (3)	$0.00	$0.00	$0.00 (2)
4. Acquisitions of institutions with FSLIC-insured deposits by FDIC-insured institutions	$0.00	$0.00	$0.00 (2)	$0.00	$0.00	$0.00 (2)

(1) All projected future liquidations are assumed as deposit transfers to FSLIC-insured institutions.

(2) Based on prior historical experience, $0.00 are projected.

(3) The Competitive Equality Banking Act of 1987 prohibits any FSLIC-insured institution from terminating its FSLIC-insured status prior to August 10, 1989, except for FSLIC-insured institutions which had taken steps prior to April 1, 1987 with respect to conversion into or merger, consolidation or acquisition involving, a FDIC-insured institution. As of September 30, 1988, FSLIC estimates that seven FSLIC-insured institutions, representing .17% ($1.65 million) of total Aggregate Deposits in FSLIC-insured institutions had applications pending with FDIC to transfer to the FDIC insurance program. Some of the seven may qualify as exempt from this moratorium. Further some of these institutions may not currently meet FDIC's minimum capital requirements. Relative to all other FSLIC-insured institutions, FSLIC estimates that, as of June 30, 1988, approximately 1,103 institutions, representing 15.5% (approximately $149 billion) of total Aggregate Deposits in FSLIC-insured institutions, would qualify for the FDIC insurance program. We are therefore unable to predict at this time which of these institutions would or could exit the FSLIC insurance program, or anticipate future Congressional actions relative to the moratorium.

TABLE XI: CONTINUING INSURANCE OBLIGATION AFTER RESOLUTION

PART II

Sections 406(b)(1)(A) of the National Housing Act, 12 USCA §1729(b)(1)(A), set forth the standard to be observed by the FSLIC in carrying out its responsibilities as the receiver of a failed Federal savings and loan association. The FSLIC is to act in a manner it "deems to be in the best interest of the association, its savers, and the Corporation." The same standard applies in the case of a receiverships of an institution other than a Federal association, under section 406(c)(3)(b) of the National Housing Act, 12 USCA §1729(c)(3)(b).

The legislative history of these provisions shows that Congress did not assign to the FSLIC the responsibility of considering the interest of the stockholders. An early draft of these provisions considered by the lawmakers included the interest of stockholders in the language quoted in the preceding paragraph. The version finally enacted did not.

Regarding the possible recoupment by stockholders, 12 CFR §569c.11 created categories of unsecured claims and establishes the priority to be observed in paying these claims, after paying secured claims. Generally, all unsecured claims in one class must be paid before any claims in a lower priority is paid. The claims of stockholders are placed tenth in order of priority, behind all other claims, including uninsured depositors and the FSLIC in its corporate capacity as subrogee of insured depositors.

Thus, in a liquidating receivership, as assets are disposed of over time, there is a theoretical possibility of recoupment by shareholders after all other claimants have been paid in full (if deception proceeds exceed higher priority claims). In an assisted acquisition where the Bank Board determines that the assets and liabilities of the association are close in value, the FSLIC as Receiver may take steps (including preparation of an audit) to assess whether a shareholder surplus in fact existed as of the date of takeover. Again, however, any such recoupment by shareholders would take place only after the FSLIC has recovered the cost of its assistance in the case.

Because FSLIC has not been assigned any direct responsibility for the stockholders of insured thrifts which have been liquidated, merged or acquired as a result of FSLIC exercising it insurance obligation, FSLIC does not track dollar losses of ownership interests of thrifts.

QUESTION 1. SOUTHWEST PLAN

QUESTIONS

I. SOUTHWEST PLAN

1. How is the Southwest Plan coverage defined? Specifically describe the process by which inclusion in the SWP caseload was and is determined?

> The original list of targets in the Southwest Plan (SWP) was complied by a consultant hired by FSLIC with the help of the Federal Home Loan Bank of Dallas. The list of approximately 104 included associations reporting RAP insolvency as of June 30, 1987 and some that were projected to be RAP insolvent by early 1988 by the Federal Home Loan Bank of Dallas Supervisory Agents.

2. Is the SWP Plan coverage determine by geographic location? Cost to resolve? Size of deposit base?

> Thrifts must be located in Texas. Geographic location within Texas is relevant to individual package configurations. Texas was divided into 14 geographic regions. The SWP is designed to generate the maximum geographic, as well as financial, benefits to the Texas thrift industry.
>
> Groups are determined by levels of insolvency, location of branches, location of troubled assets, size and financial capabilities. There are three types of consolidations: local, regional and multi-regional.
>
> Groupings were developed with the aid of a computer model that identified economic efficiencies of each region. Private consultants confirmed the efficiency of the groupings as well.

3. Are additions to the SWP caseload not possible, or have there been or are there projected to be new entries? Is there any possibility of further delineations of FSLIC's overall caseload, or does FSLIC intend to stick with current definitions of the SWP and non-SWP caseloads?

Additions are possible any time before formal negotiations on a package begin. The Federal Home Loan Bank of Dallas is currently reviewing the financial condition of their member associations to determine how many more associations in Texas should be recommended for transfer into the Southwest Plan. SWP resolutions executed to date have varied little from the original Plan. Modifications are initiated by the SWP staff in consultation with the plan's original designers and the Federal Home Loan Bank of Dallas. All modifications to the original plan are approved by the Bank Board prior to final resolution.

QUESTION 2. DISTRICT SUPERVISION AND FSLIC RESOLUTION OF INSOLVENT THRIFTS

QUESTION 2: DISTRICT SUPERVISION AND FSLIC RESOLUTION OF INSOLVENT THRIFTS

Institutions insured by FSLIC are examined by examiners employed by the Federal Home Loan Banks. The President of each Federal Home Loan Bank is designated by the Federal Home Loan Bank Board as the Principal Supervisory Agent and certain officers of these banks are designated as Supervisory Agents. The Supervisory Agents, using Reports of Examination completed by their examiners, monthly and quarterly financial reports submitted by the member institutions, and audit reports prepared by independent auditors, regulate and supervise the institution's activities and monitor the institution's adherence to applicable statutes, and regulations. When completed, the Reports of Examination, along with a Supervisory Letter commenting on the items contained in the report, are transmitted to the members of the board of directors of the institution which has been examined. The letter instructs the board members to correct any area of concern and to report in writing the corrective actions taken by the board and the institution.

Whenever the operation, or financial condition of an insured member institution is determined by the Supervisory Agent to pose an unusual risk to the FSLIC insurance fund, a monthly report is prepared by the District Bank and transmitted to the Office of Regulatory Activity ("ORA"). The monthly report provides a summary of the institution's financial condition, problem areas, and actions taken by the Supervisory Agent and the institution to reduce exposure to the insurance fund. A copy of this report, called the Significant Supervisory Case Report (SSC), is provided to the Executive Director of FSLIC by ORA. Inclusion of an institution in the SSC report alerts FSLIC staff members of the potential transfer of case resolution responsibilities from the Supervisory Agent at the District Bank to the Executive Director of FSLIC in Washington.

The Supervisory Agent continues to work with the management and directorate of the problem institution, where case resolution efforts may include independent, i.e. non-FSLIC assisted recapitalization of the institution through an acquisition, change of control, or a non-FSLIC assisted merger of the institution.

When it is not possible to resolve a problem institution without FSLIC assistance, case resolution responsibilities are transferred from the Supervisory Agent to the Executive Director of the Federal Savings and Loan Insurance Corporation.

Before transfer of the case resolution responsibility is accepted three criteria must be met. (1) Grounds must exist for the appointment of a receiver, (2) Case resolution is not possible without FSLIC assistance, and (3) The board of directors of the problem institution has adopted a Consent to Merger Resolution or have been asked to do so by the Supervisory Agent and have refused. All supervisory and regulatory responsibilities for the institution are retained by the Supervisory Agent's staff at the District Banks.

In certain instances interim actions must be taken by FSLIC to protect the insured depositors of the institution. If the Supervisory Agent recommends that the management of an institution be replaced, the institution may be included in the Management Consignment Program. In instances when an institution's collateral for Federal Home Loan Bank advances does not meet the District Bank's established credit policy, the credit department of the Bank may request a FSLIC guarantee to enable the Bank to continue to provide the institution with funds for liquidity purposes.

Once an institution is accepted in the FSLIC case load, plans are made to market the institution to potential acquirers. Institutions are marketed to all known potential acquirers to obtain the most cost effective proposal. Schedules for marketing problem institutions are coordinated between FSLIC and the District Banks to provide an orderly process. Institutions are marketed to financial institutions, corporate investors, and private investors that have been approved as qualified acquirers by the principal regulatory agency (if a regulated financial institution), or through credit determinations made by FSLIC.

Written contact is made with all known potential acquirers to obtain expressions of interest in the acquisition of an institution. After receipt of an expression of interest and a signed agreement promising confidential treatment of information, additional materials are provided to potential acquirors. The materials relate to a specific institution, and include a marketing package describing the institution's problems and financial condition. An instruction form sets the format for submitting an acquisition proposal and other information which will assist FSLIC in its determination of which proposal to negotiate.

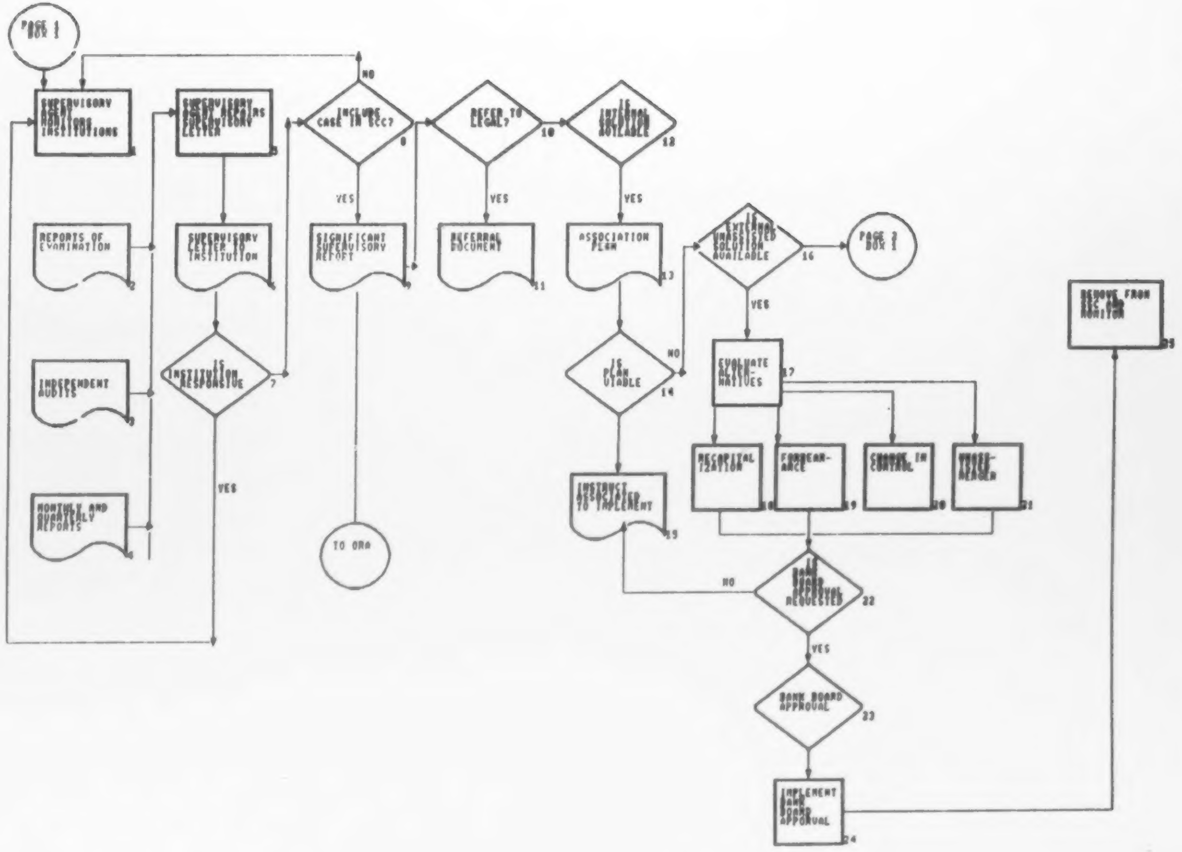
Proposals to acquire must be received by FSLIC by the date specified in the instructions. Proposals describe the form of acquisition, the type, term, and repayment terms of any proposed FSLIC financial indemnifications and other assistance. Proposals are examined to determine their legality and potential financial problems which may increase exposure to the insurance fund. FSLIC assisted acquisitions must meet a cost test which requires that the cost of assistance provided to resolve the institution be less than the cost of liquidating the institution.

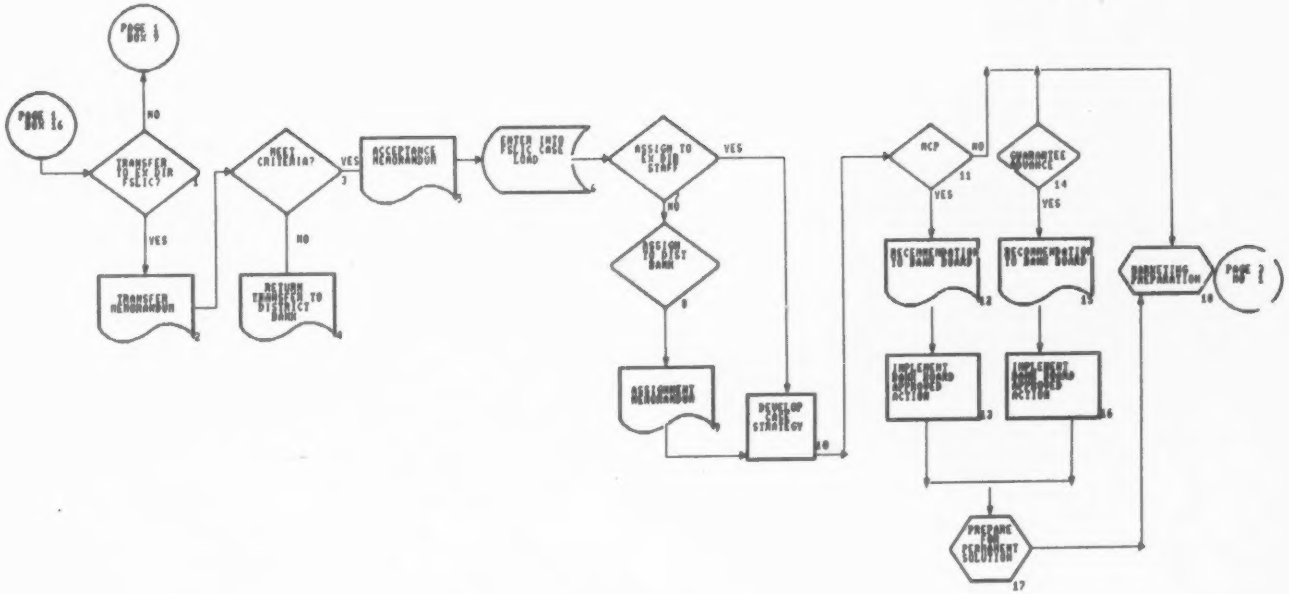
The negotiated terms of assistance between FSLIC and potential acquirers are set forth in an assistance agreement which is approved by the Federal Home Loan Bank Board.

When all case resolution alternatives have been exhausted and a cost effective acquisition is not possible, a recommendation for an insurance action is prepared for the Bank Board. An insurance action places the institution into receivership and payment of FSLIC insurance be made to the insured depositors. Payment of insurance may be a direct cash payment or by transfer of the insured portion of the account to another insured institution.

Following the completion of the case resolution activities by the Executive Director of the Federal Savings and Loan Insurance Corporation in Washington, the Supervisory Agent continues all regulatory and supervisory activities with the entity resulting from the assisted acquisition. If an insurance action has been necessary, the corporate activities of the problem institution are assumed by the receivership which was approved by the Bank Board prior to the payment of insurance.

To provide assistance to the staff of the Executive Director of FSLIC, certain responsibilities for problem case resolution are assigned to the District Banks. Cases up to $50 million are assigned and, if requested, cases up to $100 million may be assigned. The same process is used by the District Banks for case resolution as those used by the Washington staff. All FSLIC assisted transactions whether assigned to the District Banks or handled by the staff of the Executive Director of FSLIC are approved by the Federal Home Loan Bank Board.


PAGE 1 BOX 1
SUPERVISORY AGENT MONITORS INSTITUTIONS
1
REPORTS OF EXAMINATION
2
INDEPENDENT AUDITS
3
MONTHLY AND QUARTERLY REPORTS
4
SUPERVISORY AGENT PREPARES SUPERVISORY LETTER
5
SUPERVISORY LETTER TO INSTITUTION
6
IS INSTITUTION RESPONSIVE
7
YES
INCLUDE CASE IN SCC?
8
NO
YES
SIGNIFICANT SUPERVISORY REPORT
9
TO ORA
REFER TO LEGAL?
10
YES
REFERRAL DOCUMENT
11
IS INTERNAL SOLUTION AVAILABLE
12
YES
ASSOCIATION PLAN
13
IS PLAN VIABLE
14
NO
INSTRUCT ASSOCIATION TO IMPLEMENT
15
IS EXTERNAL UNASSISTED SOLUTION AVAILABLE
16
PAGE 2 BOX 1
YES
EVALUATE ALTERNATIVES
17
RECAPITALIZATION
18
FORBEARANCE
19
CHANGE IN CONTROL
20
UNASSISTED MERGER
21
IS BANK BOARD APPROVAL REQUESTED
22
NO
YES
BANK BOARD APPROVAL
23
IMPLEMENT BANK BOARD APPROVAL
24
REMOVE FROM SCC AND MONITOR
25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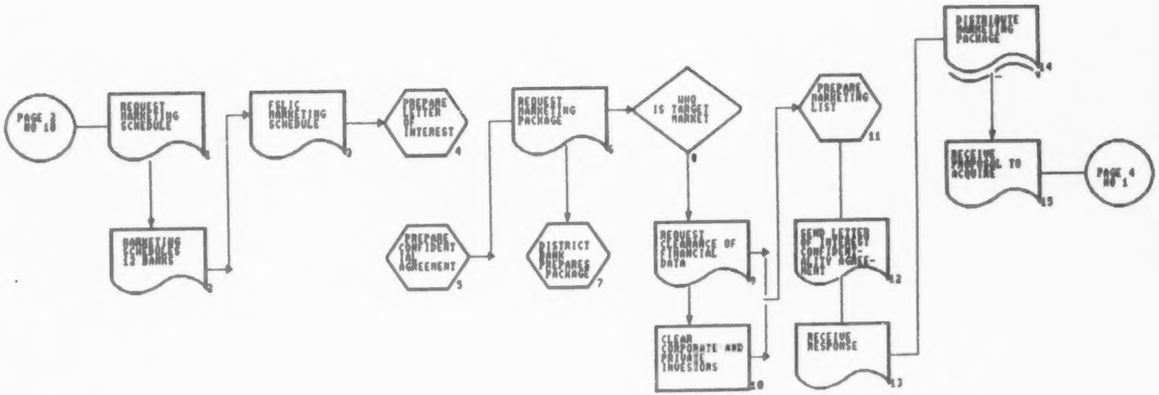
TRANSFER TO EX DIR FSLIC?
1
NO
PAGE 1 BOX 9
YES
TRANSFER MEMORANDUM
2
MEET CRITERIA?
3
NO
RETURN TRANSFER TO DISTRICT BANK
4
YES
ACCEPTANCE MEMORANDUM
5
ENTER INTO FSLIC CASE LOAD
6
ASSIGN TO EX DIR STAFF
7
YES
NO
ASSIGN TO DIST BANK
8
ASSIGNMENT MEMORANDUM
9
DEVELOP CASE STRATEGY
10
MCP
11
NO
YES
RECOMMENDATION TO BANK BOARD
12
IMPLEMENT BANK BOARD APPROVED ACTION
13
GUARANTEE ADVANCE
14
YES
RECOMMENDATION TO BANK BOARD
15
IMPLEMENT BANK BOARD APPROVED ACTION
16
PREPARE FOR PERMANENT SOLUTION
17
MARKETING PREPARATION
18
PAGE 2 NO 1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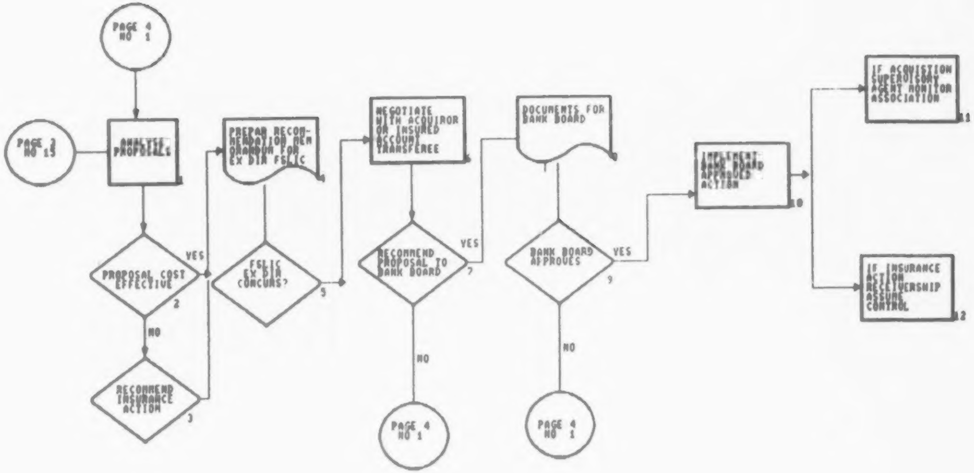
REQUEST MARKETING SCHEDULE
1
MARKETING SCHEDULES 12 BANKS
2
FSLIC MARKETING SCHEDULE
3
PREPARE LETTER OF INTEREST
4
PREPARE CONFIDENTIAL AGREEMENT
5
REQUEST MARKETING PACKAGE
6
DISTRICT BANK PREPARES PACKAGE
7
WHO IS TARGET MARKET
8
REQUEST CLEARANCE OF FINANCIAL DATA
9
CLEAR CORPORATE AND PRIVATE INVESTORS
10
PREPARE MARKETING LIST
11
SEND LETTER OF INTEREST CONFIDENTIALITY AGREEMENT
12
RECEIVE RESPONSE
13
DISTRIBUTE MARKETING PACKAGE
14
RECEIVE PROPOSAL TO ACQUIRE
15
PAGE 4 NO 1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PAGE 3
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ANALYSE PROPOSALS
PROPOSAL COST EFFECTIVE
2
YES
NO
RECOMMEND INSURANCE ACTION
3
PREPAR RECOMMENDATION MEMORANDUM FOR EX DIR FSLIC
FSLIC EX DIR CONCURS?
5
NEGOTIATE WITH ACQUIROR OR INSURED ACCOUNT TRANSFEREE
RECOMMEND PROPOSAL TO BANK BOARD
7
YES
NO
PAGE 4
NO 1
DOCUMENTS FOR BANK BOARD
BANK BOARD APPROVES
9
YES
NO
PAGE 4
NO 1
IMPLEMENT BANK BOARD APPROVED ACTION
10
IF ACQUISITION SUPERVISORY AGENT MONITOR ASSOCIATION
11
IF INSURANCE ACTION RECEIVERSHIP ASSUME CONTROL
12

QUESTION 3. FSLIC ECONOMIC AND DEPOSIT GROWTH ASSUMPTIONS

QUESTION 3: FSLIC ECONOMIC AND DEPOSIT GROWTH ASSUMPTIONS

FSLIC does not employ assumptions about macroeconomic variables such as real or nominal GNP nor does FSLIC include in its analyses assumptions about depository institutions other than thrifts. FSLIC`s estimates of future cash flows are based on long run trends in the thrift industry and, as such, are predictions of averages over the course of cyclical fluctuations that might occur in the years ahead. FSLIC uses this approach rather than the more uncertain method of predicting the timing and magnitude of future business cycles and the effects of such cycles in causing future cash flows to deviate from long run trends.

QUESTION 4. FICO NOTE ISSUANCE

QUESTION 4: **FICO NOTE ISSUANCE**

1) **PLEASE DISCUSS IN DETAIL HOW FICO DETERMINES THE TIMING OF NOTE ISSUANCE AND HOW THE NOTES ARE MARKETED.**

FICO issues are driven primarily by FSLIC's request for funds. FICO has used three methods for issuing debt - publicly through a selling group, publicly using a competitive bid, and through private placements presented directly to FICO. Timing for public issues are constrained by the yearly FICO issuing calendar, whereby FICO receives a list of approved public issuing dates from Treasury. All methods are ultimately constrained by market acceptance of the securities.

2) **IF THE NOTES ARE STRIPPED AFTER THEY ARE MARKETED, PLEASE DISCUSS FSLIC'S VIEW OF CONGRESSIONAL INTENT REGARDING STRIPPING,**

FICO is not aware of any specific Congressional intent regarding stripping of FICO securities. FICO has not stripped the securities, but has neither endorsed nor opposed the practice of stripping FICO's by dealers in the secondary markets. This is similar to Treasury's position on Treasury STRIPS. A positive effect of stripping FICO securities is that the practice has broadened the investor base, producing cost savings. However, a negative effect has been noticed in the secondary market, which has been rendered less liquid due to stripping.

3) **HOW THE PRINCIPAL AND INTEREST STRIPS HAVE BEEN MARKETED,**

FICO has not issued strip securities or engaged in any stripping of FICO securities. Information, however, has been provided by a dealer that recently participated in a FICO issue placed through the competitive bidding process. The indications from this dealer were that securities were marketed in the following manner:

- Analytical reports were sent to all salespeople and major customers.
- Sales were promoted by providing inventory and price information into internal data screens and communication system.
- Emphasis was placed on suitability for managed accounts and insurance companies (to offset annuities).

4) **AND WHAT GROUPINGS OF INVESTORS CURRENTLY HOLD OUTSTANDING PRINCIPAL AND INTEREST STRIPS.**

Although FICO has not participated in either the issuance of strip securities or the stripping of existing FICO securities, information gathered from dealers prior to the December 27, 1988 issue indicates the following breakdown of entities holding FICO strips:

Interest-Only Strips

* Regional Dealers	42%
Investment Advisor	40%
Commercial Banks	6%
Insurance Companies	5%
Corporations	5%
State Funds	1%
Education	0.4%

* The bulk of sales in this category were to individuals.

Principal-Only Strips

* Investment Advisors	62%
Insurance Companies	38%

* The bulk of sales in this category were to individuals.

5) IN ADDITION, PLEASE PROVIDE THE OUTSTANDING PAR VALUE AT MATURITY OF FICO BONDS WHICH HAVE NOT BEEN STRIPPED, PRINCIPAL STRIPS, AND INTEREST STRIPS.

FICO does not maintain specific information in these areas. However, the information in the enclosed table was provided by Goldman Sachs.

6) WHAT ARE THE POLICY IMPLICATIONS OF ALLOWING STRIPPING TO OCCUR. SPECIFICALLY, DISCUSS THE IMPACT ON FICO'S COST OF BORROWING (COMPARING, WITH COMPARABLE TREASURY ISSUES AS THE BENCHMARK, THE COST OF BORROWING FOR STRIPPED AND UNSTRIPPED FICO BONDS, AS WELL AS COMPARISONS WITH OTHER COMPARABLE STRIPPED AND UNSTRIPPED AGENCY AND PRIVATE SECURITIES).

Stripping FICO securities has been limited to the secondary market stripping of outstanding FICO's by dealers. The practice of stripping FICO securities has broadened the investor base, and thereby allowed for cost savings to FICO and ultimately to the industry. The nature of this savings, however, is difficult to separate out from other factors affecting the price and yield of an issue. Also, FICO has no information on other agency strips or private strips with which to make a comparison.

7) FINALLY, DISCUSS THE PERCEIVED MARKET RISK DIFFERENTIAL BETWEEN INTEREST AND PRINCIPAL STRIPS.

The perceived market risk between these two types of securities depends on the investor's perceptions of future in the shape of the strips yield curve. Currently FICO Principal-Only Strips are yielding between 25 and 50 basis points below comparable Interest-Only FICO strips. This may be a reflection of differing credit risk assessments due to the differing cash streams supporting the two instruments. Although neither is U.S.

Government guaranteed, FICO's principal is defeased with Treasury Strips held in a segregated account, while FICO interest is paid using Thrift industry assessments.

FICO STRIP ISSUES
(as of 12/15/88)

Series	Manager	Amount Stripped	Par Value Created	Underlying Issue
1	Salomon Bros	$750 MM	$3,000 MM	FICO 10% 5/11/18
1A	First Boston	250 MM	1,000 MM	FICO 10% 5/11/18
2	Goldman Sachs	100 MM	394 MM	FICO 9.8% 11/30/17
3	Morgan Stanley	100 MM	394 MM	FICO 9.8% 11/30/17
4	New Japan Sec.	100 MM	421 MM	FICO 10.7% 10/06/17
5	Goldman Sachs	100 MM	382 MM	FICO 9.4% 2/08/18
6	Daiwa Securities	100 MM	410 MM	FICO 10.35% 8/03/18
7	Drexel Burnham	100 MM	410 MM	FICO 10.35% 8/03/18
8	New Japan Sec.	100 MM	410 MM	FICO 10.35% 8/03/18
9	Thomson McKinnon	50 MM	210 MM	FICO 10.70% 10/06/17
10	New Japan Sec.	100 MM	394 MM	FICO 9.80% 10/30/17
11	Thomson McKinnon	100 MM	377 MM	FICO 9.40% 2/08/18
12	Salomon Bros	700 MM	2,779 MM	FICO 9.90% 12/06/18
	TOTAL	$2,650 MM	$10,581 MM	

Source: Goldman Sachs

QUESTION 5. LEAST COST SOLUTIONS

5. LEAST COST SOLUTIONS

Part I.

There is no legal requirement that FSLIC facilitate the least costly resolution of a failing institution's problems, although generally the cost to FSLIC of providing financial assistance must be less than the cost of an insurance action.

The only legal restrictions on the cost of resolving a failing institution's problems are set forth in Sections 406(f) and 408(m) of the National Housing Act, as amended ("NHA"), 12 U.S.C. Sections 1729(f) and 1730a(m) (1982), as amended. Section 406(f) of the NHA authorizes FSLIC to provide financial assistance to failing insured institutions and to other entities or persons in order to prevent the default of or to facilitate the merger or acquisition of such failing institutions. Section 406(f)(4)(A) of the NHA states that no financial assistance shall be provided pursuant to Sections 406(f)(1), (2) or (3) in an amount exceeding that "which the Corporation [FSLIC] determines to be reasonably necessary to save the cost of liquidating (including paying the insured accounts of) such insured institution...." Section 406(f)(4)(A) provides an exception to this restriction if FSLIC determines that the continued operation of the institution is essential to provide adequate savings or home financing services in its community. A similar restriction applicable to net worth certificates, but without the aforementioned exception, appears in Section 406(f)(5)(G).

Section 408(m) of the NHA allows FSLIC to authorize the acquisition of a failing institution "[n]otwithstanding any provisions of the laws or constitution of any State or any provision of Federal law," except as provided in Sections 408(c), 408(e)(2) and 408(l). As a prerequisite to the exercise of such authority, FSLIC must determine "that such authorization would lessen the risk to the Corporation [FSLIC]". In addition, as one of several additional prerequisites, FSLIC must consider the need to minimize the cost of FSLIC assistance. In so doing FSLIC must also consider the need to maintain specialized depository institutions as well as the priorities set forth in paragraphs (B), (C) and (D) of Section 408(m)(3).

The literal language of Sections 406(f) and 408(m) of the NHA requires FSLIC consider only the cost or amount of FSLIC financial assistance in making its determinations. Furthermore, the language and legislative history of Sections 406(f) and 408(m), the Economic Recovery Tax Act of 1981, the Tax Reform Act of 1986 and the Technical Corrections and Miscellaneous Revenue Act of 1988 do not in any way suggest that, in calculating the cost of resolution, FSLIC must take into account revenue which the Treasury would have received but for the tax savings made possible by the provisions in these Acts concerning tax-free reorganizations and FSLIC assistance payments.

Notwithstanding the foregoing, FSLIC does consider FSLIC-related tax benefits and potential lost Treasury revenue in making its cost determinations concerning appropriate resolutions for failing institutions. (See part II of this question.) The Federal Home Loan Bank Board however, does consider the extent of forgone tax collections as compared to FSLIC`s aggregate savings (present discounted value), inclusive of any tax benefits directly received by the FSLIC, that may be achieved by resolving the case through the assisted acquisition rather than liquidation. This comparison does allow determination of whether the assisted acquisition or the liquidation is the lowest cost alternative from the perspective of the overall U. S. Government.

For more information on this topic, please refer to Table X. Tax Expenditures.

5. LEAST COST SOLUTIONS

Part II.

Historically, FSLIC has not normally included, as an element of its calculations of least cost alternatives for case resolutions, the cost of tax expenditures that could result from the assistance provided to acquirers or from the utilization of available, existing NOLs in the acquired institution.

On the pages which follow, FSLIC has provided copies of the cost analyses for three respresentative case resolutions.

1. The acquisition of Arrowhead FSLA - an institution created as a result of the consolidation of Capitol S&L and Mutual S&L, a part of the "Oklahoma Plan".

2. The combined acquisition of Bloomfield SLA and First Dearborn.

3. The combined acquisition of Home FSLA and Northwest FSLA.

Also provided are copies of the analyses for the specifically requested cases.

1. Pelican Homestead
2. Southwest Savings
3. Sunbelt
4. State Federal of Lubbock

ARROWHEAD FSLA

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: Lynda Daubert
Regional Director, MAD
Phillip Mento
Financial Analyst, MAD

FROM: Robert J. Grohal
Richard D. Weiss
Financial Analysts, AED
Alvin James
Regional Director, AED

DATE: December 29, 1988

RE: Revised Viability Analysis of Arrowhead FS&LA (FHLBB No. 8516)
(Oklahoma City Region)

The Oklahoma City Region consists of the following two institutions:

Capitol Savings & Loan of Oklahoma City, OK	FHLBB# 3684
Mutual Savings & Loan of Oklahoma City, OK	FHLBB# 1224

INTRODUCTION

The following viability analyses attempts to project the financial statements of Arrowhead Federal merged with Northwest Federal Savings & Loan Association ("Northwest").

The financial analysis was severely impacted by the time constraints that were imposed upon the Analysis and Evaluation Division. As a result, our review of the proposal only includes a cursory financial valuation of LSB Industries Inc. (the corporate parent of Northwest). We believe that a detailed review would be warranted as there are numerous affiliated transactions between the different subsidiaries of LSB.

In our opinion, the business plans that were submitted by Northwest Federal were deficient in several respects. The business plans were based on June 30, 1988 financial data which was inadequate in view of the fact that the LSB acquisition of Northwest occurred in March 1988. We feel that September 30, 1988 data should have been used in order to give a greater effect of the LSB acquisition. In addition, the submitted pro forma financial statements failed to account for the basis of many projected operating assumptions.

BACKGROUND

Two alternative viability analyses were performed.

1. Northwest acquires Arrowhead without additional accounts receivables purchasing rights and additional leasing.

2. Northwest acquires Arrowhead with additional accounts receivables purchasing rights and additional leasing.

The assumptions used in the viability analysis were based upon the business plan submitted from Northwest, historical financial data, industry standards, and capital loss information received from the FHLB of Topeka.

The valuation of the viability analysis was based upon September 1988 financial data and the FSLIC September 1988 interest rate scenario. The bid valuation for Arrowhead FS&LA was updated for September interest rates and financial data before inclusion into the viability analysis. The discount rate used in the updated bid valuations was 9.86 percent which reflects the current FICO bond rate.

The acquisition of Arrowhead by Northwest will be in the form of a merger, with Northwest absorbing Arrowhead. The purchase method of accounting is to be used.

ARROWHEAD FS&LA VIABILITY ANALYSIS ASSUMPTIONS

1. The FSLIC infused a total of $52.1 million via a capital note in August 1988. The initial assistance covered GAAP net worth at the time and currently covers Arrowhead's net worth. The viability analysis assumed that the $52.1 million note was canceled and replaced (or the face amount modified) by a $51.8 million capital note that represented the negative net worth as of September 30, 1988.

2. The FSLIC provided for capital loss coverage and yield maintenance for a ten year period. The FSLIC capital loss coverage will be paid in the form of cash as the losses occur.

3. We assumed that the acquisition would utilize purchase accounting under GAAP.

4. Asset growth was 5.0% in the first year and averaged 6.1% in years 2 through 5 in Alternative 1. In Alternative 2, asset growth was 25.8% in year 1 and averaged 6.4% in years 2 through 5. The larger asset growth in Alternative 2 was due to the infusion of accounts receivables.

5. Operating expenses were based upon Northwest's historical data and the business plan. The ratio of operating expenses to average assets declined from approximately 1.4% to 1.3% over the first three years and remained at 1.3% for the fourth and fifth year in Alternative 1. In Alternative 2, the operating expense ratio declined from 1.14% to 1.07% over the first three years and remained at 1.07% for years 4 and 5. The lower operating expense ratio in Alternative 2 reflected the fact that the accounts receivable infusion would not result in additional operating expenses for the resulting institution.

6. The annual growth of savings deposits were projected at approximately 7.7% per year for both Alternatives.

7. Goodwill was amortized over ten years as indicated by historical data from Northwest.

8. Asset and liability composition were based upon Northwest's business plan.

ARROWHEAD RESULTS

Alternative 1 (Without Additional Accounts Receivable)

Year	Assets	Net Worth	Net Income*	NW/Liabilities
0	$466,282	$48,807	-	11.69%
1	489,665	44,710	$(4,098)	10.05
2	517,244	39,904	(4,806)	8.36
3	549,009	35,860	(4,044)	6.99
4	583,103	31,283	(4,577)	5.67
5	621,348	27,768	(3,515)	4.68

Alternative 2 (With Additional Accounts Receivable)

Year	Assets	Net Worth	Net Income*	NW/Liabilities
0	$466,282	$48,807	-	11.69%
1	586,528	48,459	$(349)	9.01
2	623,156	48,362	(96)	8.41
3	665,926	49,814	1,451	8.09
4	706,282	51,500	1,686	7.87
5	751,584	55,042	3,542	7.90

* - Before taxes.

SUMMARY OF THE ANALYSIS

Deposits for Northwest grow at about 8% per year over the term of the assistance agreement providing funds primarily for growth in 1-4 family mortgages. However, even with FSLIC assistance, Northwest fails to make a profit if their bid to purchase additional accounts receivables from various LSB subsidiaries is disallowed (Alternative 1). On the other hand, Northwest does show slight profit in years 3 through 5 if they are allowed to purchase additional accounts receivables (Alternative 2). The fact that some profit could possibly be realized is tempered by the fact that Northwest would have to engage in more borrowings (probably FHLB advances) to acquire additional accounts receivables, thus, reducing the net worth to total liabilities ratio. Moreover, the encountering of additional net losses further reduces net worth which in turn could place Northwest precariously close to minimum federal regulatory net worth requirements if they cannot obtain more receivables from LSB subsidiaries.

The projected financial statements show an annual loss of approximately $1.5 million in service corporation income. This loss is primarily attributable to the depreciation of contributed assets. Reference is made to Northwest's pro formas that indicate an annual loss of approximately $1.6 million.

Our analysis projects that annual goodwill amortization will be approximately $1.7 million. This compares to an annual charge of $1.0 million on goodwill amortization that was represented by Northwest. The difference is caused by the fact that no goodwill was created on the acquirer's financial statements.

The AED viability analysis is more conservative than the acquirer's business plan in several respects. First, future provisions for loan losses (not covered by FSLIC) are substantially higher on our analysis than on the acquirer's. Second, the acquirer assumes gains on the sale of REO whereas our analysis assumes none. Third, the interest margin is more positive on the acquirer's analysis than on our analysis.

CONCLUSION

The viability analysis shows that Northwest will not achieve any profitability if they are rejected in their bid to purchase additional receivables from LSB subsidiaries. Even with the purchase of additional receivables, Northwest will still have a difficult time making a profit. (The Topeka District Bank noted that the purchase of additional receivables may make it difficult for Northwest to meet the qualified lender test, thus forcing them to grow at a faster rate which could further affect their ability to achieve profitability and stability).

Also, additional caution must be used in that time constraints limited our ability to analyze, in depth, the business plan and pro forma financial statements provided by Northwest. Also, the pro forma statements revealed some inconsistencies by Northwest, such as their failure to record goodwill created by the acquisition of goodwill. Also, Northwest's loss projections did not conform to information provided by the FHLB of Topeka.

Finally, the fact that Northwest has been unprofitable for the past year and has not achieved any degree of profitability following its takeover by LSB cannot be ignored. It is possible that allowing Northwest to merge with Arrowhead will further exacerbate the thrift problem in the State of Oklahoma.

ADDENDUM

You have requested that we value the tax benefits that will accrue to the FSLIC. It is our understanding that the current agreement calls for the acquirer to share the NOL's, FSLIC assistance, and FSLIC payments for indemnifications based upon Northwest-Arrowhead as a stand-alone entity. We see this as an effective way to prevent the FSLIC from receiving any benefits. First, the combined entity is likely to show operating losses (before FSLIC assistance) for several years. Second, even if the merged institutions do report taxable income, much of that could be offset by the $16 million of NOL's that currently belong to Northwest. Therefore, it seems obvious to us that the FSLIC should negotiate to receive either a guaranteed payment or the actual tax benefit that the consolidated entity (LSB) receives from the FSLIC assistance.

Unfortunately, the amount of tax benefits that LSB Industries Inc. will be able to derive from the FSLIC assistance is impossible to determine by AED at this time with any degree of certainty. This amount is dependent upon the future earnings of LSB and the intricate corporate relationship between LSB and its numerous subsidiaries which includes Northwest-Arrowhead.

The amount of FSLIC infusions for capital loss coverage and yield maintenance is projected to be approximately $43 million over five years. Should LSB be able to utilize all of these tax benefits, the total value would be about **$10.28 million** discounted at the FICO bond rate of 9.86%.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: James Ventorini
Financial Analyst, MAD
Lynda Daubert
Regional Director, MAD

FROM: Robert J. Grohal
Richard D. Weiss RW
Financial Analysts, AED
Alvin James
Regional Director, AED

DATE: December 6, 1988

RE: Proposed Acquisition Cost of Arrowhead FS&LA (FHLBB No. 8516)
Consisting of Two Associations (Oklahoma City Region)

The Oklahoma City Region consists of the following two institutions:

Capitol Savings & Loan of Oklahoma City, OK	FHLBB# 3684
Mutual Savings & Loan of Oklahoma City, OK	FHLBB# 1224

SUMMARY OF LIQUIDATION ANALYSIS

	Cash (000's)	Present Value
Liquidation Cost per August 29, 1988 memo	$ 43,690	$113,851

STANDARD ASSISTANCE PACKAGE

	Cash	Present Value
Total Cost per August 29, 1988 memo	$154,572	$ 85,488

SUMMARY OF BID COSTS

Bidder	Cash	Present Value
Northwest FS&LA (Appendix A)	$141,936	$ 78,352
Sooner FS&LA (Appendix B)	148,258	83,628
MidFirst S&LA (Appendix C)	154,572	85,488
American Fidelity (Appendix D)	149,344	85,891

STANDARD FSLIC ASSISTANCE

1. The FSLIC provided assistance to bring the tangible negative net worth of the acquired associations to zero in August of 1988. The FSLIC put into place a 10 year note that will bear interest at the District Ten Cost of funds plus 50 basis points with interest paid quarterly, and the principal payment at the end of year 10. The FSLIC plans to bring the existing negative net worth to zero as of December 31, 1988 by paying cash to Arrowhead for operating losses through the end of the year.

2. The standard assistance agreement for the Oklahoma Plan stipulates that the FSLIC will provide 100% capital loss coverage on the net book value of all covered assets. Covered assets include all non-performing loans, REO, REH, accrued interest and subsidiaries of the acquired association. Capital loss coverage will be in the form of a 10 year note with an interest rate equal to the yield subsidy rate given on covered assets.

3. The FSLIC will provide a yield subsidy on covered assets for as long as they are held by the association. The yield subsidy will be at the FHLB District 10 cost of funds plus a premium and will be calculated on the net book value of the assets. The premium is equal to:

   220 basis points - year 1
   215 basis points - year 2
   205 basis points - year 3
   195 basis points - year 4
   185 basis points - year 5
   175 basis points - year 6
   165 basis points - year 7
   155 basis points - year 8
   145 basis points - year 9
   135 basis points - year 10

4. Performing assets will be marked to market at closing and the resulting goodwill amortization will be funded by the FSLIC. It was assumed that goodwill will amortized over a ten year period.

STANDARD ASSUMPTIONS USED IN THE ANALYSIS

1. The costings use June 1988 financial data and the base case June interest rate scenario.

2. The costing assumed a discount rate of 10.35 percent.

3. Covered assets are assumed to be sold beginning in the second year through seven and a half years. This conforms to each liquidation analysis.

4. Because of the lack of information available, we did not estimate tax benefits.

5. Due to the variability of business plans, we did not analyze equity participation. other than preferred stock.

6. Reference is made to the attached liquidation analyses for details concerning loss assumptions, sale rates, and other applicable information.

7. Reference is made to the costing memo dated August 29, 1988 for the standard assistance agreement cost.

8. Additional changes to net worth that may have occurred after June 30, 1988 have not been included in the cost of liquidation or the cost of the bids.

CONCLUSION

Since we have not costed the tax benefits and the upside aspects of the proposals due to the lack of information and the limited time frame, we are prepared to do further costing of these areas since they may be significant in the decision of the winning proposal.

Appendix A
($000's)

Proposal for Acquisition of: **Arrowhead FS&LA (#8516)**
(Oklahoma City Region)

of Bidder: **Northwest FS&LA (#7474)**
Woodward, OK

Total Liquidation Cost	Initial	Cash Cost	PV Cost
Total Cost as of August 29, 1988 Memo	0	43,690	113,851

Standard Bid	Initial	Cash Cost	PV Cost
Negative Net Worth	0	73,707	35,783
Mark to Market Adjustments	0	788	495
Capital Loss Coverage	0	35,919	15,214
Yield Subsidy	0	36,805	28,143
Tax Benefits	0	0	0
Equity Participation	0	0	0
Legal Expense	0	7,353	5,853
Total Cost as of August 29, 1988 Memo	0	154,572	85,488

Bidder's Proposal	Initial	Cash Cost	PV Cost
Negative Net Worth	0	73,707	35,783
Mark to Market Adjustments	0	788	495
Capital Loss Coverage	0	27,482	11,351
Yield Subsidy	0	32,606	24,870
Tax Benefits	0 *	0 *	0 *
Equity Participation	0 *	0 *	0 *
Legal Expense	0	7,353	5,853
Total Cost for this Proposal	0	141,936	78,352

	Initial	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	0	0
Mark to Market Adjustments	0	0	0
Capital Loss Coverage Changes	0	(8,437)	(3,863)
Yield Subsidy Changes	0	(4,199)	(3,273)
Tax Benefit Changes	0 *	0 *	0 *
Equity Participation	0 *	0 *	0 *
Legal Expense	0	0	0
Total Incremental Cost	0	(12,636)	(7,136)
Total Cost of Proposal	0	141,936	78,352
Percentage of Liquidation			69%

* Not Available

Appendix A (cont)

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. Northwest proposes to acquire Arrowhead by merging it into Northwest. As a result of the merger, its regulatory capital would be 9% of liabilities.

2. Northwest proposes to share in 50% of capital losses/gains on the sale of covered assets for amounts up to 30% of the Net Book Value with a maximum cumulative loss to Northwest of $4,000,000. Also, we assumed that no asset disposition would result in a gain. Additionally, we have assumed that payment for capital losses will be in the form of a note equal to the terms used for yield maintenance.

3. Northwest proposes yield maintenance on non-performing assets for 10 years at the Tenth District Cost of Funds plus 75 basis points in years 1 thru 7, and no basis points thereafter.

4. Northwest proposes to share 30% of tax benefits with the FSLIC. Because of the lack of information available, we did not estimate the amount of the tax benefits accruing to the FSLIC.

5. Northwest proposes to give the first $1,000,000 of audited GAAP net income to the FSLIC. In addition, Northwest will share 10% of GAAP Net income with the FSLIC for 10 years. Because of the lack of information available, we did not estimate the benefit to the FSLIC for this income sharing.

Appendix B
(000's)

Proposal for Acquisition of: Arrowhead FS&LA (#8516)
(Oklahoma City Region)

[illegible] of Bidder: Sooner FS&LA (#2036)
Tulsa, OK

Total Liquidation Cost	Initial	Cash Cost	PV Cost
Total Cost as of August 29, 1988 Memo	0	43,690	113,851

Standard Bid	Initial	Cash Cost	PV Cost
Negative Net Worth	0	73,707	35,783
Mark to Market Adjustments	0	788	495
Capital Loss Coverage	0	35,919	15,214
Yield Subsidy	0	36,805	28,143
Tax Benefits	0	0	0
Equity Participation	0	0	0
Legal Expense	0	7,353	5,853
Total Cost as of August 29, 1988 Memo	0	154,572	85,488

Bidder's Proposal	Initial	Cash Cost	PV Cost
Negative Net Worth	0	53,818	26,402
Mark to Market Adjustments	0	400	400
Capital Loss Coverage	0	44,724	18,886
Yield Subsidy	0	41,963	32,087
Tax Benefits	0 *	0 *	0 *
F[illegible]y Participation	0 *	0 *	0 *
L[illegible] Expense	0	7,353	5,853
Total Cost for this Proposal	0	148,258	83,628

	Initial	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	(19,889)	(9,381)
Mark to Market Adjustments	0	(388)	(95)
Capital Loss Coverage Changes	0	8,805	3,672
Yield Subsidy Changes	0	5,158	3,944
Tax Benefit Changes	0 *	0 *	0 *
Equity Participation	0 *	0 *	0 *
Legal Expense	0	0	0
Total Incremental Cost	0	(6,314)	(1,860)
Total Cost of Proposal	0	148,258	83,628
Percentage of Liquidation			73%

* [illegible]ot Available

Appendix B (cont)

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. Sooner proposes to acquire Arrowhead and merge it into Sooner. All of the liabilities of Arrowhead will be supported by Sooner's regulatory capital. Sooner intends to increase its capital by $9,000,000 through the issuance of capital qualifying debentures, preferred stock, or common stock should they successfully acquire Arrowhead.

2. Sooner proposes that the FSLIC provide a 10 year note for negative net worth at the **bond equivalent yield on the 6 month T-Bill plus 175 basis points**. Additionally, Sooner proposes that FSLIC reverse all of Arrowhead's reserves when computing negative net worth.

3. Sooner defines covered assets as Total Assets except: Marketable Securities, 1-4 Residential Loans, FHLB Stock, U.S. Government and Agency Mortgage Backed Securities, and 50% of Furniture, Fixtures, and Equipment (FF&E). Additionally, after the effective date, Sooner proposes the coverage of; defaulted Marketable Securities for 3 years, delinquent 1-4 Residential Loans (more than 90 days) for 10 years (Sooner will absorb the first $50,000 annually), 100% of "unusable" FF&E for 2 years, and any other asset that becomes delinquent for 3 years.

4. Sooner proposes that the FSLIC provide yield maintenance on covered assets for 10 years at the Tenth District Cost of Funds plus 200 basis points for year 1, 195 basis points for year 2, 185 basis points for year 3, 175 basis points for year 4, 165 basis points for year 5, 155 basis points for year 6, 145 basis points for year 7, 135 basis points for year 8, and 125 basis points for years 9 and 10.

5. Sooner proposes that the FSLIC provide 80% of capital loss coverage on covered assets for 10 years. Sooner will share in 20% of capital losses on covered assets up to an annual amount not exceeding $800,000. If the FSLIC note is prepaid within three years, Sooner's loss sharing would be reduced by 50%. Additionally, Sooner proposes capital loss coverage on losses on 1-4 Residential Loans which are delinquent 30 days or less at the time of acquisition. Sooner will share in an amount up to 25% of these losses up to an aggregate amount of $200,000 in any calendar year. The FSLIC will receive 70% of any gain in instances where the net sales price exceeds 70% of the Gross Book Value of sold covered assets. In our analysis, we do not assume that any gains will result from the disposition of covered assets. It is assumed that payment for capital losses will be in the form of a note with the same terms that are used for yield maintenance.

6. Sooner requests that all 1-4 Residential Loans, Marketable Securities, futures, options, forward commitments, off balance sheet items, hedging, and all liabilities, be marked to market at the effective date. Any goodwill created by such a mark to market is to be immediately paid to Sooner or paid in equal annual amortization payments at the yield rate over 7 years. Note that we have assumed that FSLIC will pay the resulting goodwill immediately.

7. Sooner proposes to return 50% of tax benefits realized by Arrowhead to the FSLIC. However, Sooner will not absorb more than $1,000,000 of loss sharing and tax sharing in any one year. The form of remittal will be in a credit toward future assistance payments. Alternatively, FSLIC will agree to reimburse Sooner for any tax benefit paid or credited to the FSLIC that is subsequently disallowed by the Internal Revenue Service. Because of the lack of information available, we did not estimate the amount of tax benefits accruing to the FSLIC.

CONCLUSION:

We seriously doubt the ability of Sooner to be able to utilize the tax benefits realized by Arrowhead based upon their large losses that were incurred over the past two years. For more information regarding Sooner's financial condition, reference is made to the November 7, 1988 edition of Barron's.

Appendix C
(000's)

Proposal for Acquisition of: Arrowhead FS&LA (#8516)
(Oklahoma City Region)

l of Bidder: Midfirst FS&LA (#7851)
Oklahoma City, OK

Total Liquidation Cost	Initial	Cash Cost	PV Cost
Total Cost as of August 29, 1988 Memo	0	43,690	113,851

Standard Bid	Initial	Cash Cost	PV Cost
Negative Net Worth	0	73,707	35,783
Mark to Market Adjustments	0	788	495
Capital Loss Coverage	0	35,919	15,214
Yield Subsidy	0	36,805	28,143
Tax Benefits	0	0	0
Equity Participation	0	0	0
Legal Expense	0	7,353	5,853
Total Cost as of August 29, 1988 Memo	0	154,572	85,488

Bidder's Proposal	Initial	Cash Cost	PV Cost
Negative Net Worth	0	73,707	35,783
Mark to Market Adjustments	0	788	495
Capital Loss Coverage	0	35,919	15,214
Yield Subsidy	0	36,805	28,143
Tax Benefits	0 *	0 *	0 *
E y Participation	0 *	0 *	0 *
L . Expense	0	7,353	5,853
Total Cost for this Proposal	0	154,572	85,488

	Initial	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	0	0
Mark to Market Adjustments	0	0	0
Capital Loss Coverage Changes	0	0	0
Yield Subsidy Changes	0	0	0
Tax Benefit Changes	0 *	0 *	0 *
Equity Participation	0 *	0 *	0 *
Legal Expense	0	0	0
Total Incremental Cost	0	0	0
Total Cost of Proposal	0	154,572	85,488
Percentage of Liquidation			75%

* ot Available

Appendix C (cont)

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. MidFirst proposes to acquire Arrowhead and operate it as a subsidiary of the Association with a separate charter. MidFirst will make a cash contribution to Arrowhead in an amount equal to 3% of the institution's total liabilities.

2. MidFirst proposes that the FSLIC receive 90% of any gains resulting from asset disposition. We assumed that no asset disposition would result in a gain, thus, this did not affect our cost estimates.

3. MidFirst proposes to return 100% of tax benefits realized by Arrowhead to the FSLIC. Because of the lack of information available, we did not estimate the amount of the tax benefits accruing to the FSLIC.

4. MidFirst proposes that the FSLIC receive warrants to purchase 15% of Arrowhead's capital stock for a nominal price. Because of the lack information available, we did not estimate the value of these warrants.

Appendix D
(000's)

Proposal for Acquisition of: Arrowhead FS&LA (#8516)
(Oklahoma City Region)

. of Bidder: American Fidelity Assurance Co.
Oklahoma City, OK

Total Liquidation Cost	Initial	Cash Cost	PV Cost
Total Cost as of August 29, 1988 Memo	0	43,690	113,851
Standard Bid	**Initial**	**Cash Cost**	**PV Cost**
Negative Net Worth	0	73,707	35,783
Mark to Market Adjustments	0	788	495
Capital Loss Coverage	0	35,919	15,214
Yield Subsidy	0	36,805	28,143
Tax Benefits	0	0	0
Equity Participation	0	0	0
Legal Expense	0	7,353	5,853
Total Cost as of August 29, 1988 Memo	0	154,572	85,488
Bidder's Proposal	**Initial**	**Cash Cost**	**PV Cost**
Negative Net Worth	0	46,717	25,313
Mark to Market Adjustments	0	1,217	808
Capital Loss Coverage	0	52,699	22,250
Yield Subsidy	0	41,358	31,667
Tax Benefits	0 *	0 *	0 *
Equity Participation	0 *	0 *	0 *
Legal Expense	0	7,353	5,853
Total Cost for this Proposal	0	149,344	85,891
	Initial	**Cash Cost**	**PV Cost**
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	(26,990)	(10,470)
Mark to Market Adjustments	0	429	313
Capital Loss Coverage Changes	0	16,780	7,036
Yield Subsidy Changes	0	4,553	3,524
Tax Benefit Changes	0 *	0 *	0 *
Equity Participation	0 *	0 *	0 *
Legal Expense	0	0	0
Total Incremental Cost	0	(5,228)	403
Total Cost of Proposal	0	149,344	85,891
Percentage of Liquidation			75%

* Not Available

Appendix D (cont)

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. The proposed acquisition of Arrowhead by American Fidelity will be executed through a subsidiary service corporation of American Fidelity (Commercial Bank, National Association). Arrowhead will be a wholly-owned subsidiary of Commercial and an indirectly wholly-owned subsidiary of American Fidelity. American Fidelity will infuse $10,000,000 into Arrowhead via cash, cash equivalents, and/or investment securities. Also, Arrowhead will maintain a net worth ratio of 3%, and the acquirers further commit that, if necessary, they will contribute additional capital to Arrowhead so as to cause its net worth ratio to increase at a rate of not less than .5% per annum until it reaches 6%.

2. American Fidelity proposes that the FSLIC provide a 10 year negative net worth note at the Tenth District Cost of Funds plus 50 basis points, with quarterly interest payable and equal annual payments of principal beginning in year 6. Additionally, American Fidelity proposes that the FSLIC reverse all of Arrowhead's reserves when computing negative net worth.

3. American Fidelity proposes that any building less than 75% occupied be included as a covered asset.

4. American Fidelity proposes that the FSLIC receive 50% of any gains resulting from asset disposition where the net sales price is in excess of 75% of the Book Value of the covered asset. We assumed that no asset disposition would result in a gain. Thus, this did not affect our cost estimates.

5. American Fidelity proposes that the FSLIC provide yield maintenance on covered assets at the Tenth District Cost of Funds plus 200 basis points in year 1, 185 basis points in year 2, 170 basis points in year 3, 155 basis points in year 4, 140 basis points in year 5, 125 basis points in year 6, 110 basis points in year 7, 100 basis points in year 8, 95 basis points in year 9, and 90 basis points in year 10.

6. Capital loss coverage is assumed to be provided on covered assets in the form of a note equal to the terms used for yield maintenance.

7. The FSLIC will reimburse American Fidelity in cash, on a quarterly basis, for all operating costs associated with the covered assets. Due to a lack of information, this cost has not been estimated.

8. American Fidelity requests a marking to market of Arrowhead's performing assets on the effective date. Any resulting goodwill shall be amortized and reimbursed to Arrowhead on a quarterly basis. Additionally, any unamortized goodwill is subject to yield maintenance at the yield rate.

9. American Fidelity proposes that the FSLIC receive tax benefits in the following manner:

   A) 100% of the tax savings attributable to any indemnification payments made to Arrowhead by the FSLIC pursuant to Section III.C-6.

B) 40% of the tax savings realized from net operating losses generated by Arrowhead after the effective date.

C) 20% of the tax savings attributable to Arrowhead's historical net operating and built-in portfolio loss carryforwards existing at the effective date.

Because of the lack of information available, we did not estimate the amount of of the tax benefits accruing to the FSLIC.

10. American Fidelity proposes that the FSLIC will receive 10% of net income for 10 years. The amount of this profit sharing, if any, has not yet been included in our cost estimates.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: James Ventorini
Financial Analyst, MAD
Lynda Daubert
Regional Director, MAD

FROM: Robert J. Grohal
Richard D. Weiss
Financial Analysts, AED
Alvin James
Regional Director, AED

DATE: November 18, 1988

RE: Proposed Acquisition Cost of Arrowhead FS&LA (FHLBB No. 8516)
Consisting of Two Associations (Oklahoma City Region)

The Oklahoma City Region consists of the following two institutions:

Capitol Savings & Loan of Oklahoma City, OK	FHLBB# 3684
Mutual Savings & Loan of Oklahoma City, OK	FHLBB# 1224

SUMMARY OF LIQUIDATION ANALYSIS

	Cash (000's)	Present Value
Liquidation Cost per August 29, 1988 memo	$ 43,690	$113,851

STANDARD ASSISTANCE PACKAGE

	Cash	Present Value
Total Cost per August 29, 1988 memo	$154,572	$ 85,488

SUMMARY OF BID COSTS

Bidder	Cash	Present Value
Northwest FS&LA (Appendix A)	$149,899	$ 83,327
MidFirst S&LA (Appendix B)	154,572	85,488
American Fidelity (Appendix C)	147,738	86,022
Sooner FS&LA (Appendix D)	157,291	87,511
Commercial FS&LA (Appendix E)	205,847	146,397

STANDARD FSLIC ASSISTANCE

1. The FSLIC provided assistance to bring the tangible negative net worth of the acquired associations to zero in August of 1988. The FSLIC put into place a 10 year note that will bear interest at the District Ten Cost of funds plus 50 basis points with interest paid quarterly, and the principal payment at the end of year 10. The FSLIC plans to bring the existing negative net worth to zero as of December 31, 1988 by paying cash to Arrowhead for operating losses through the end of the year.

2. The standard assistance agreement for the Oklahoma Plan stipulates that the FSLIC will provide 100% capital loss coverage on the net book value of all covered assets. Covered assets include all non-performing loans, REO, REH, accrued interest and subsidiaries of the acquired association. Capital loss coverage will be in the form of a 10 year note with an interest rate equal to the yield subsidy rate given on covered assets.

3. **The FSLIC will provide a yield subsidy on covered assets for as long as they are held by the association. The yield subsidy will be at the FHLB District 10 cost of funds plus a premium and will be calculated on the net book value of the assets. The premium is equal to:**

   220 basis points - year 1
   215 basis points - year 2
   205 basis points - year 3
   195 basis points - year 4
   185 basis points - year 5
   175 basis points - year 6
   165 basis points - year 7
   155 basis points - year 8
   145 basis points - year 9
   135 basis points - year 10

4. **Performing assets will be marked to market at closing and the resulting goodwill amortization will be funded by the FSLIC. It was assumed that goodwill will amortized over a ten year period.**

STANDARD ASSUMPTIONS USED IN THE ANALYSIS

1. The costings use June 1988 financial data and the base case June interest rate scenario.

2. The costing assumed a discount rate of 10.35 percent.

3. Covered assets are assumed to be sold beginning in the second year through seven and a half years. This conforms to each liquidation analysis.

4. Because of the lack of information available, we did not estimate tax benefits.

5. Due to the variability of business plans, we did not analyze equity participation, other than preferred stock.

6. Reference is made to the attached liquidation analyses for details concerning loss assumptions, sale rates, and other applicable information.

7. Reference is made to the costing memo dated August 29, 1988 for the standard assistance agreement cost.

8. Additional changes to net worth that may have occurred after June 30, 1988 have not been included in the cost of liquidation or the cost of the bids.

CONCLUSION

Since we have not costed the tax benefits and the upside aspects of the proposals due to the lack of information and the limited time frame, we are prepared to do further costing of these areas since they may be significant in the decision of the winning proposal.

Appendix A
($000's)

Proposal for Acquisition of: Arrowhead FS &LA (#8516)
(Oklahoma City Region)

Name of Bidder: Northwest FS&LA (#7474)
Woodward, OK

	Initial Cash	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	0	0
Mark to Market Adjustments	0	0	0
Capital Loss Coverage Changes	0	(3,922)	(1,709)
Yield Subsidy Changes	0	(751)	(452)
Tax Benefit Changes	N/A	N/A	N/A
Equity Participation	N/A	N/A	N/A
Total Incremental Cost	0	(4,673)	(2,161)
Total Cost of Bid		149,899	83,327
Percentage of Liquidation			73%
Liquidation Cost per August 29, 1988 memo			
Total Liquidation Cost		43,690	113,851

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. Northwest proposes to acquire Arrowhead by merging it into Northwest. As a result of the merger, its regulatory capital would be 9% of liabilities.

2. Northwest proposes to share in 50% of capital losses/gains on the sale of covered assets for amounts up to 20% of the Net Book Value with a maximum cumulative loss to Northwest of $2,000,000. We assume that the $2,000,000 cap on losses would be reached in the first year. Also, we assumed that no asset disposition would result in a gain.

3. Northwest proposes yield maintenance on non-performing assets for 10 years at the Tenth District Cost of Funds plus 220 basis points in year 1, 215 basis points in year 2, 200 basis points in year 3, 180 basis points in year 4, 160 basis points in year 5, and 75 basis points in years 6 through 10.

4. Northwest proposes to share 30% of tax benefits with the FSLIC. Because of the lack of information available, we did not estimate the amount of the tax benefits accruing to the FSLIC.

5. Northwest proposes to share 10% of GAAP Net income with the FSLIC for 10 years. Because of the lack of information available, we did not estimate the benefit to the FSLIC for this income sharing.

* N/A = not available

Appendix B
($000's)

Proposal for Acquisition of: Arrowhead FS &LA (#8516)
(Oklahoma City Region)

Name of Bidder: MidFirst S&LA (#7851)
Oklahoma City, OK

	Initial Cash	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	0	0
Mark to Market Adjustments	0	0	0
Capital Loss Coverage Changes	0	0	0
Yield Subsidy Changes	0	0	0
Tax Benefit Changes	N/A	N/A	N/A
Equity Participation	N/A	N/A	N/A
Total Incremental Cost	0	0	0
Total Cost of Bid		154,572	85,488
Percentage of Liquidation			75%
Liquidation Cost per August 29, 1988 memo			
Total Liquidation Cost		43,690	113,851

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. MidFirst proposes to acquire Arrowhead and operate it as a subsidiary of the Association with a separate charter. MidFirst will make a cash contribution to Arrowhead in an amount equal to 3% of the institution's total liabilities.

2. MidFirst proposes that the FSLIC receive 90% of any gains resulting from asset disposition. We assumed that no asset disposition would result in a gain, thus, this did not affect our cost estimates.

3. MidFirst proposes to return 50% of tax benefits realized by Arrowhead to the FSLIC. Because of the lack of information available, we did not estimate the amount of the tax benefits accruing to the FSLIC.

4. MidFirst proposes that the FSLIC receive warrants to purchase 15% of Arrowhead's capital stock for a nominal price. Because of the lack information available, we did not estimate the value of these warrants.

* N/A = not available

Appendix C
($000's)

Proposal for Acquisition of: Arrowhead FS &LA (#8516)
(Oklahoma City Region)

Name of Bidder: American Fidelity Assurance Co.,
Oklahoma City, OK

	Initial Cash	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	(7,277)	211
Mark to Market Adjustments	0	443	323
Capital Loss Coverage Changes	0	0	0
Yield Subsidy Changes	0	0	0
Tax Benefit Changes	N/A	N/A	N/A
Equity Participation	N/A	N/A	N/A
Total Incremental Cost	0	(6,834)	534
Total Cost of Bid		147,738	86,022
Percentage of Liquidation			76%
Liquidation Cost per August 29, 1988 memo Total Liquidation Cost		43,690	113,851

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. The proposed acquisition of Arrowhead by American Fidelity will be executed through a subsidiary service corporation of American Fidelity (Commercial Bank, National Association). Arrowhead will be a wholly-owned subsidiary of Commercial and an indirectly wholly-owned subsidiary of American Fidelity. American Fidelity will infuse $10,000,000 into Arrowhead via cash, cash equivalents, and/or investment securities. Also, Arrowhead will maintain a net worth ratio of 3%, and the acquirers further commit that, if necessary, they will contribute additional capital to Arrowhead so as to cause its net worth ratio to increase at a rate of not less than .5% per annum until it reaches 6%.

2. American Fidelity proposes that the FSLIC provide a 10 year negative net worth note at the Tenth District Cost of Funds plus 50 basis points, with quarterly interest payable and equal annual payments of principal beginning in year 6.

3. American Fidelity proposes that any building less than 75% occupied be included as a covered asset.

4. American Fidelity proposes that the FSLIC receive 50% of any gains resulting from asset disposition where the net sales price is in excess of 75% of the Book Value of the covered asset. We assumed that no asset

disposition would result in a gain. Thus, this did not affect our cost estimates.

5. The FSLIC will reimburse American Fidelity in cash, on a quarterly basis, for all operating costs associated with the covered assets. Due to a lack of information, this cost has not been estimated.

6. American Fidelity requests a marking to market of Arrowhead's performing assets on the effective date. Any resulting goodwill shall be amortized and reimbursed to Arrowhead on a quarterly basis. Additionally, any unamortized goodwill is subject to yield maintenance at the yield rate.

7. American Fidelity proposes that the FSLIC receive tax benefits in the following manner:

   A) 100% of the tax savings attributable to any indemnification payments made to Arrowhead by the FSLIC pursuant to Section III.C-6.

   B) 40% of the tax savings realized from net operating losses generated by Arrowhead after the effective date.

   C) 20% of the tax savings attributable to Arrowhead's historical net operating and built-in portfolio loss carryforwards existing at the effective date.

   Because of the lack of information available, we did not estimate the amount of of the tax benefits accruing to the FSLIC.

8. American Fidelity proposes that the FSLIC will receive 10% of net income for 10 years. The amount of this profit sharing, if any, has not yet been included in our cost estimates.

* N/A = not available

Appendix D
($000's)

Proposal for Acquisition of: Arrowhead FS &LA (#8516)
(Oklahoma City Region)

Name of Bidder: Sooner FS&LA (#2036)
Tulsa, OK

	Initial Cash	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	(19,889)	(9,381)
Mark to Market Adjustments	0	(388)	(95)
Capital Loss Coverage Changes	0	17,790	7,500
Yield Subsidy Changes	0	5,206	3,999
Tax Benefit Changes	N/A	N/A	N/A
Equity Participation	N/A	N/A	N/A
Total Incremental Cost	0	2,719	2,023
Total Cost of Bid		157,291	87,511
Percentage of Liquidation			77%
Liquidation Cost per August 29, 1988 memo Total Liquidation Cost		43,690	113,851

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. Sooner proposes to acquire Arrowhead and merge it into Sooner. All of the liabilities of Arrowhead will be supported by Sooner's regulatory capital. Sooner intends to increase its capital by $9,000,000 through the issuance of capital qualifying debentures, preferred stock, or common stock should they successfully acquire Arrowhead.

2. Sooner proposes that the FSLIC provide a 10 year note for negative net worth at the bond equivalent yield on the 6 month T-Bill plus 175 basis points. Additionally, Sooner proposes that FSLIC reverse all of Arrowhead's reserves when computing negative net worth.

3. Sooner defines covered assets as Total Assets except: Marketable Securities, 1-4 Residential Loans, FHLB Stock, U.S. Government and Agency Mortgage Backed Securities, and 50% of Furniture, Fixtures, and Equipment (FF&E). Additionally, after the effective date, Sooner proposes the coverage of; defaulted Marketable Securities for 3 years, delinquent 1-4 Residential Loans (more than 90 days) for 10 years (Sooner will absorb the first $50,000 annually), 100% of "unusable" FF&E for 2 years, and any other asset that becomes delinquent for 3 years.

4. Sooner proposes that the FSLIC provide yield maintenance on covered assets for 10 years at the bond equivalent yield on the 6 month T-Bill plus 250

basis points for year 1, 245 basis points for year 2, 235 basis points for year 3, 225 basis points for year 4, 215 basis points for year 5, 205 basis points for year 6, 195 basis points for year 7, 185 basis points for year 8, and 175 basis points for years 9 and 10.

5. Sooner proposes that the FSLIC provide 100% of capital loss coverage on covered assets for 10 years. Additionally, Sooner proposes capital loss coverage on losses on 1-4 Residential Loans which are delinquent 30 days or less at the time of acquisition. Sooner will share in an amount up to 25% of these losses up to an aggregate amount of $100,000 in any calendar year. The FSLIC will receive 70% of any gain in instances where the net sales price exceeds 70% of the Gross Book Value of sold covered assets. In our analysis, we do not assume that any gains will result from the disposition of covered assets.

6. Sooner requests that all 1-4 Residential Loans, Marketable Securities, futures, options, forward commitments, off balance sheet items, hedging, and all liabilities, be marked to market at the effective date. Any goodwill created by such a mark to market is to be immediately paid to Sooner or paid in equal annual amortization payments at the yield rate over 7 years. Note that we have assumed that FSLIC will pay the resulting goodwill immediately.

7. Sooner proposes to return 50% of tax benefits realized by Arrowhead to the FSLIC. The form of remittal will be in a credit toward future assistance payments. Alternatively, FSLIC will agree to reimburse Sooner for any tax benefit paid or credited to the FSLIC that is subsequently disallowed by the Internal Revenue Service. Because of the lack of information available, we did not estimate the amount of tax benefits accruing to the FSLIC.

CONCLUSION:

We seriously doubt the ability of Sooner to be able to utilize the tax benefits realized by Arrowhead based upon their large losses that were incurred over the past two years. For more information regarding Sooner's financial condition, reference is made to the November 7, 1988 edition of Barron's.

* N/A = not available

Appendix E
($000's)

Proposal for Acquisition of:	Arrowhead FS &LA (#8516) (Oklahoma City Region)
Name of Bidder:	Commercial FS&LA (#5198) Omaha, NE

	Initial Cash	Cash Cost	PV Cost
Total Prior Cost Estimate	0	154,572	85,488
Incremental Cost of Proposal			
Negative Net Worth Changes	0	51,275	60,909
Mark to Market Adjustments	0	0	0
Capital Loss Coverage Changes	0	0	0
Yield Subsidy Changes	0	0	0
Tax Benefit Changes	N/A	N/A	N/A
Equity Participation	N/A	N/A	N/A
Total Incremental Cost	0	51,275	60,909
Total Cost of Bid		205,847	146,397
Percentage of Liquidation			129%
Liquidation Cost per August 29, 1988 memo			
Total Liquidation Cost		43,690	113,851

MODIFICATIONS TO THE STANDARD OKLAHOMA PLAN ASSISTANCE AGREEMENT

1. The proposed acquisition of Arrowhead by Commercial will be executed through an intermediary service corporation of Commercial. Arrowhead will be operated as a separate, wholly-owned, second level subsidiary for a period of at least 6 years. Commercial proposes to issue to the FSLIC, $13,000,000 in subordinated debt to maintain regulatory capital at a reasonable level. Such debt would be subordinate to Preferred Stock, would be non-convertible, would be at the Tenth District Cost of Funds plus 50 basis points with interest adjusted and due quarterly, would be prepayable at any time, and the principal would be payable in equal annual installments over a period of five years commencing on its twentieth anniversary date. The net effect, to the FSLIC, of this debt has not been estimated due to this bid exceeding the cost of liquidation and the cost of the other bids.

2. Commercial requests $105,000,000 coverage for negative net worth or the negative net worth of Arrowhead at the date of closing, whichever is greater. For our cost estimates, we have used $105,000,000 as the principal amount for the negative net worth note.

3. Commercial will pay a $1,000,000 premium for branching rights into Iowa and Missouri.

4. Commercial will pay .25% premium for deposits (excluding brokered deposits

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: J. Richard Earle
Director, MAD
James Ventorini
Financial Analyst, MAD

FROM: Alvin James
Regional Director, AED
Richard D. Weiss
Financial Analyst, AED

DATE: August 29, 1988

RE: Proposed Acquisition Cost of Oklahoma City Region Consisting of Two Associations

This region consists of the following two institutions:

Capital Federal Savings Bank of Oklahoma City, OK	FHLBB# 3684
Mutual FS&LA of Oklahoma City, OK	FHLBB# 1224

FSLIC ASSISTANCE

1. The FSLIC will provide assistance to bring the tangible negative net worth of the acquired associations to zero. The assistance will be in the form of a 10 year note that will bear interest at the District Ten Cost of funds plus 50 basis points with interest paid quarterly, and the principal payment at the end of year 10.

2. The FSLIC will provide 100% capital loss coverage on the net book value of all covered assets. Covered assets include all non-performing loans, REO, REH, accrued interest and subsidiaries of the acquired associations. Capital loss coverage will be in the form of a 10 year note with an interest rate equal to the yield subsidy rate given on covered assets.

3. The FSLIC will provide a yield subsidy on covered assets for as long as they are held by the association. The yield subsidy will be at the FHLB District 10 cost of funds plus a premium and will be calculated on the net book value of the assets. The premium is equal to:

   220 basis points - year 1
   215 basis points - year 2
   205 basis points - year 3
   195 basis points - year 4
   185 basis points - year 5
   175 basis points - year 6
   165 basis points - year 7
   155 basis points - year 8
   145 basis points - year 9
   135 basis points - year 10

and Jumbo CD's).

5. The FSLIC will receive 80% of all tax benefits realized by the Association. Because of the lack of information available, we did not estimate the amount of these benefits to the FSLIC.

6. Commercial will share the net after tax profits of the Association equally with the FSLIC for a period of 6 years from the date of acquisition. The sharing of after tax profits is realized after if Commercial receives a return of 50 basis points on the assets of the Association in year one, 75 basis points in year two, and 100 basis points in years three through six. Because of the lack of information available, we did not estimate the amount of these benefits to the FSLIC.

CONCLUSION:

Note that not all of the elements of this bid bid have been costed because of the bid is obviously greater than competing proposals and liquidation due to the additional $65,000,000 (approximately) requested for negative net worth coverage.

* N/A = not available

4. Performing assets will be marked to market at closing and the resulting goodwill amortization will be funded by the FSLIC. It was assumed that goodwill will be amortized over a ten year period.

V. ASSUMPTIONS USED IN THE ANALYSIS

1. The costing used June 1988 financial data and the base case June interest rate scenario.
2. The costing assumed a discount rate of 10.35 percent.
3. Covered assets are assumed to be sold beginning in the second year through seven and a half years. This conforms to the liquidation analyses.
4. Reference is made to the attached liquidation analyses for details concerning loss assumptions, sale rates, and other applicable information.

Capital Federal

(000s)

	Cash	Present Value
Negative Net Worth Note	$ 13,239	$ 6,427
Mark to Market Adjustment	788	495
Capital Loss Note	8,405	3,560
Yield Subsidy	14,709	11,247
Legal Expenses	2,738	2,210
Total	$ 39,879	$ 23,939

Mutual

(000s)

	Cash	Present Value
Negative Net Worth Note	$ 60,468	$ 29,356
Mark to Market Adjustment	0	0
Capital Loss Note	27,514	11,654
Yield Subsidy	22,096	16,896
Legal Expenses	4,615	3,643
Total	$114,693	$ 61,549

TOTAL

(000s)

	Cash	Present Value
Negative Net Worth Note	$ 73,707	$ 35,783
Mark to Market Adjustment	788	495
Capital Loss Note	35,919	15,214
Yield Subsidy	36,805	28,143
Legal Expenses	7,353	5,853
Total	$154,572	$ 85,488

BLOOMFIELD FSLA & FIRST DEARBORN

Federal
Home Loan
Bank
Board

Memo

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
INTER-OFFICE COMMUNICATION

TO: **Carrie Wagner**
Financial Analyst, MAD
Roger Lerner
Regional Director, MAD

December 1, 1988

FROM: **Robert Nolan** RN
Financial Analyst, AED
Alvin James
Regional Director, AED

SUBJECT: **Michigan Plan**

As you requested we are enclosing the following analyses on the alternatives available under the Michigan Plan.

Summary of Projected Cost to FSLIC

(In 000's)

	$ Outlay	$ Present Value
Liquidation	$133,904	$251,055
First Nationwide (Tbill minus 444 basis pts.) (Zero Premium)	$243,366	$104,780
First Nationwide (Tbill minus 100 basis pts.) ($29,211,000 Premium)	$258,972	$121,972
First Nationwide (Tbill plus 25 basis pts.) ($39,836,000 Premium)	$259,339	$125,018
Stoneridge Resources Inc. (Stoneridge keeps NOL benefit)	$266,218	$126,047
Stoneridge Resources Inc. (FSLIC keeps NOL benefit)	$284,340	$135,168

Federal
Home Loan
Bank
Board

Memo

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
INTER-OFFICE COMMUNICATION

November 27, 1988

To: **Carrie Wagner**
Financial Analyst, MAD
Roger Lerner
Regional Director, MAD

From: **Robert C. Nolan**
Financial Analyst, AED
Alvin James
Regional Director, AED

Subject: Bloomfield S&LA
Birmingham, MI
FHLB No. 7902

A liquidation analysis has been performed for Bloomfield Savings and Loan Association of Birmingham, Michigan. Incorporated in this report is the September, 1988 quarterly report information along with the September, 1988 FSLIC market rate scenario and opportunity cost rates.

Liquidation Assumptions:

	(in 000's)
1. Insured Savings	$601,408
2. Uninsured Savings	$ 6,075
5. Receivership Life	5 Years
6. FSLIC Opportunity Cost:	9.716%
7. Total Assets as of 9/30/88	$688,676
8. Estimated Net Worth as of 9/30/88	($ 26,143)

Cost of Liquidation:	$ Cash Outlay	Present Value
Payout to Insured Savers	$601,408	$601,408
Insurance Payment Cost	$ 1,404	$ 1,404
Total Cash Outflow	$602,813	$602,813
Recovery from Receivership	($554,336)	($451,444)
Total Cost to FSLIC [1]	**$ 48,477**	**$151,368**

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[1] We assume the FHLB advances are repaid during the liquidation. Interest is paid on the outstanding advances until repayment. If the advances were prepaid at the outset and the FSLIC were required to pay a prepayment penalty, the penalty as of 10/04/88 would be approximately $3,115,608.

Bloomfield S&LA Liquidation Analysis
November 27, 1988

Bloomfield S&LA is an institution with $688.7 million in total assets. Mortgage Loans account for roughly $458.2 million of these assets, with one to four family dwelling unit loans amounting to $63.0 million.

1. Delinquent mortgage loans totaling $11.6 million are considered non-performing and are sold over five years. Losses on these delinquent loans are estimated to be $1.0 million for which $0.4 million in reserves have been established.

2. Total non-mortgage loans are $69.8 million. Delinquent non-mortgage loans totaling $1.9 million were defaulted into a non-earning category and sold over five years. Losses of $1.3 million are anticipated on these loans.

3. Losses on $6.8 million of REO are estimated to be $2.6 million. To date $0.9 million of reserves have been established to cover these losses.

4. The thrift had no Real Estate Holdings.

5. Fixed assets of $10.1 million are expected to be depreciated by $1.3 million and then liquidated at losses of approximately $4.1 million. No reserves have been established for these losses.

6. Equity investments in Service Corporations amounted to $7.9 million. Total losses assumed on these investments in the event of liquidation amount to $2.0 million. No reserves have been established for these losses.

7. Other Assets amounted to $10.4 million ($4.8 million of Accrued Interest Receivable and $5.6 million of Other Assets.) These assets are projected to be liquidated at a loss of approximately $1.5 million ($1.3 million for uncollectable interest receivable and $0.2 million for Other Asset losses.) No reserves have been established to cover these losses.

8. A Net Operating Loss Carryforward of approximately $18.0 million as of 10/04/88 is not included as a factor in this analysis.

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GENREPORT RMAB

                         BLOOMFIELD S AND LA, FA IN BIRMINGHAM, MI
                                    MAB SUMMARY REPORT
                                    11/29/88 AT 17:32

=====================================================================================================
                                 RECONCILIATION SUMMARY
                                                                                          $ TOTAL
                                                                                          -------
INITIAL NET WORTH                                                                        (26,143)
  Goodwill                                                                               (50,413)
  Deferred Losses)                                                                              0

TANGIBLE NET WORTH                                                                       (76,556)
  Contra Assets - Reserves and Unearned Discounts                                           4,720
  Total Losses)                                                                          (21,426)
  Interest Income                                                                         104,981
  Other Income                                                                            (4,482)
  Operating Expense)                                                                     (51,877)
  Interest Expense)                                                                       (1,492)
  Secured Creditor Difference                                                                   0
  Unsecured Creditor Difference                                                               475
  Insurance Cost Payment)                                                                 (1,404)
  (Fixed Asset Depreciation)                                                              (1,321)
  (Disposition Cost)                                                                            0
  (Note Principal)                                                                              0

CASH BASIS LIQUIDATION COST                                                                49,403

=====================================================================================================
                                      LOSS SUMMARY

CAPITAL LOSSES:                                     MARKET LOSSES:
  Nonperforming Mortgages              1,035          Sales of Mortgages                [illegible]
  Nonperforming Nonmortgages           1,240          Sales of Nonmortgage Loans        [illegible]
  Original REO                   [illegible]          Sales of Cash and Investments             95
  REO From New Defaults          [illegible]                                           -----------
  REM                                      0        TOTAL MARKET LOSSES                      5,039
  Service Corps                        1,982
  New Asset!                               0        OTHER LOSSES                             5,685
                                 -----------
TOTAL CAPITAL LOSSES                  10,702        TOTAL LOSSES                            21,426

=====================================================================================================
                             BREAKDOWN OF NONPERFORMING LOANS

MORTGAGES:                       [illegible]
  Adjustable Rate
   1-4 Family Residential        [illegible]        NONMORTGAGES:
  Multifamily                    [illegible]          Consumer Loans                   [illegible]
  Second Mortgages               [illegible]          Commercial Loans                 [illegible]
                                 -----------                                           -----------
Nonperf. Mortgage Loans                6,187        Nonperf. Nonmortgage Loans               1,240
  Less Writedown)                          0          (Less Writedown)                           0
                                 -----------                                           -----------
TOTAL NONPERF. MORTGAGE LOANS          6,187        TOTAL NONPERF. NONMORTGAGE LOANS         1,240
```

Federal
Home Loan
Bank
Board
Memo

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
INTER-OFFICE COMMUNICATION

To: **Carrie Wagner**
Financial Analyst, MAD
Roger Lerner
Regional Director, MAD

November 27, 1988

From: **Robert C. Nolan** RN
Financial Analyst, AED
Alvin James
Regional Director, AED

Subject: First Dearborn FA
Dearborn, MI
FHLB No. 3657

A liquidation analysis has been performed for First Dearborn Savings and Loan Association of Dearborn, Michigan. Incorporated in this report is the September, 1988 quarterly report information along with the September, 1988 FSLIC market rate scenario and opportunity cost rates.

Liquidation Assumptions:

	(in 000's)
1. Insured Savings	$228,123
2. Uninsured Savings	$ 2,304
5. Receivership Life	5 Years
6. FSLIC Opportunity Cost:	9.716%
7. Total Assets as of 9/30/88	$192,348
8. Estimated Net Worth as of 9/30/88	($ 44,705)

Cost of Liquidation:	$ Cash Outlay	Present Value
Payout to Insured Savers	$228,123	$228,123
Insurance Payment Cost	$ 584	$ 584
Total Cash Outflow	$228,706	$228,706
Recovery from Receivership	($143,279)	($129,019)
Total Cost to FSLIC [1]	**$ 85,427**	**$ 99,687**

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[1] We assume the FHLB advances are repaid during the liquidation. Interest is paid on the outstanding advances until repayment. If the advances were prepaid at the outset and the FSLIC were required to pay a prepayment penalty, the penalty as of 10/04/88 would be approximately $37,089.

First Dearborn Liquidation Analysis
November 27, 1988

First Dearborn is an institution with $192.3 million in total assets. Mortgage Loans account for roughly $103.1 million of these assets, with one to four family dwelling unit loans amounting to $68.2 million.

1. Delinquent mortgage loans totaling $12.0 million are considered non-performing and are sold over five years. Losses on these delinquent loans are estimated to be $3.8 million for which $0.8 million in reserves have been established.

2. Total non-mortgage loans are $1.8 million. Delinquent non-mortgage loans totaling $0.9 million were defaulted into a non-earning category and sold over five years. Fully reserved losses of $0.9 million are anticipated on these loans.

3. Losses on $20.9 million of REO are estimated to be $11.3 million. To date $7.0 million of reserves have been established to cover these losses.

4. Reserved losses of $0.4 million are expected on Real Estate Holdings of $0.6 million.

5. Fixed assets of $3.3 million are expected to be depreciated by $0.4 million and then liquidated at losses of approximately $2.3 million. No reserves have been established for these losses.

6. Equity investments in Service Corporations amounted to $1.0 million. Total losses expected on these investments in the event of liquidation amount to $0.1 million. No reserves have been established for these losses.

7. Other Assets amounted to $3.4 million ($0.7 million of Accrued Interest Receivable and $2.7 million of Other Assets.) These assets are projected to be liquidated at a loss of approximately $0.5 million ($0.2 million for uncollectable interest receivable and $0.3 million for Other Asset losses.) No reserves have been established to cover these losses.

8. A Net Operating Loss Carryforward of approximately $50.8 million as of 10/04/88 is not included as a factor in this analysis.

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GENREPORT RMAD

                              FIRST DEARBORN, FA IN DEARBORN, MI
                                      MAD SUMMARY REPORT
                                     11/24/88 AT 10:00

==========================================================================================================
                                     RECONCILIATION SUMMARY
                                                                                                  $ TOTAL
                                                                                                  -------
INITIAL NET WORTH                                                                                (44,705)
  (Goodwill)                                                                                            0
  (Deferred Losses)                                                                               (3,531)

TANGIBLE NET WORTH                                                                               (48,236)
  Contra Assets - Reserves and Unearned Discounts                                                   3,436
  (Total Losses)                                                                                 (26,517)
  Interest Income                                                                                  10,413
  Other income                                                                                      (362)
  (Operating Expense)                                                                             (9,937)
  (Interest Expense)                                                                                 (62)
  Secured Creditor Difference                                                                          0
  Unsecured Creditor Difference                                                                      557
  (Insurance Cost Payment)                                                                          (584)
  (Fixed Asset Depreciation)                                                                        (431)
  (Disposition Cost)                                                                                   0
  (Note Principal)                                                                                     0

CASH BASIS LIQUIDATION COST                                                                        55,422

==========================================================================================================
                                          LOSS SUMMARY

CAPITAL LOSSES:                                               MARKET LOSSES:
  Nonperforming Mortgages                    1,759              Sales of Mortgages                  5,744
  Nonperforming Nonmortgages                   926              Sales of Nonmortgage Loans              0
  Original REO                              11,244              Sales of Cash and Investments       1,100
  REO From New Defaults                        327                                            -----------
  REM                                          399            TOTAL MARKET LOSSES                   6,844
  Service Corps                                105
  New Asset!                                     0            OTHER LOSSES                          4,783
                                       -----------
TOTAL CAPITAL LOSSES                        14,889
                                                              TOTAL LOSSES                         26,517

==========================================================================================================
                                  BREAKDOWN OF NONPERFORMING LOANS

MORTGAGES:
  Adjustable Rate                      [illegible]
   1-4 Family Residential              [illegible]            NONMORTGAGES:
  Multifamily                          [illegible]              Consumer Loans              [illegible]
  Second Mortgages                     [illegible]              Commercial Loans                  926
                                       -----------                                        -----------
 Nonperf. Mortgage Loans                     1,906             Nonperf. Nonmortgage Loans         926
   (Less Writedown)                              0               (Less Writedown)                   0
                                       -----------                                        -----------
TOTAL NONPERF. MORTGAGE LOANS               1,906             TOTAL NONPERF. NONMORTGAGE LOANS    926
```

MICHIGAN PLAN

Bidder: First Nationwide Bank December 1, 1988

AED Analyst: Robert Nolan MAD Analyst: Carrie Wagner

Date of Bid Proposal: November 21, 1988

Terms of the Bid:

A FSLIC note with a 10 year maturity would be issued to FN in an amount equivalent to tangible GAAP net worth reduced by the value of the assets removed from the institutions by the FSLIC at closing. The rate on the note would equal 25 basis points over the Six Month T-Bill rate on a Bond Equivalent yield basis payable quarterly with principal payable at term. The note is to be reduced by a premium equal to five percent of non-brokered and non-jumbo deposits ($39,836,000 as of 09/30/88).

For each basis point reduction in the FSLIC note rate a corresponding $85,000 reduction in the premium is required.

Costing: First Nationwide

Yield: Six Month TBill plus 25 Basis Points
Premium: $39,836,000
Tax Benefits Not Costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

		(in 000's) $ Basis	$ Present Value
1)	Net Worth Note [1]	$290,582	$148,676
2)	Recovery - Dearborn [2]	($ 14,188)	($ 10,687)
3)	Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
	Total Cost to FSLIC	**$259,339**	**$125,018**

1. The form of the infusion is assumed to be a FSLIC note. The principal amount of the note is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC and reduced by a $39,836,000 premium. The terms of the note are quarterly interest at a rate equal to the six month TBill on a bond equivalent basis plus 25 basis points with principal payable at the end of 10 years.
2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.
3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

Costing: **First Nationwide**

Yield: Six Month TBill minus 100 Basis Points
Premium: $29,211,000
Tax Benefits Not Costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

		(in 000's) $ Basis	$ Present Value
1)	Net Worth Note [1]	$289,973	$145,630
2)	Recovery - Dearborn [2]	($ 14,188)	($ 10,687)
3)	Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
	Total Cost to FSLIC	**$258,730**	**$121,972**

1. The form of the infusion is assumed to be a FSLIC note. The principal amount of the note is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC and reduced by a $29,211,000 premium. The terms of the note are quarterly interest at a rate equal to the six month TBill on a bond equivalent basis minus 100 basis points with principal payable at the end of 10 years.
2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.
3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

Costing: First Nationwide

Yield: Six Month TBill minus 444 Basis Points
Premium: 0
Tax Benefits Not Costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

		(in 000's) $ Basis	$ Present Value
1)	Net Worth Note [1]	$274,609	$128,438
2)	Recovery - Dearborn [2]	($ 14,188)	($ 10,687)
3)	Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
	Total Cost to FSLIC	**$243,366**	**$104,780**

---

1. The form of the infusion is assumed to be a FSLIC note. The principal amount of the note is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC. The terms of the note are quarterly interest at a rate equal to the six month TBill on a bond equivalent basis minus 444 basis points with principal payable at the end of 10 years.
2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.
3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

MICHIGAN PLAN

Bidder: Stoneridge Resources Inc. December 1, 1988

AED Analyst: Robert Nolan MAD Analyst: Carrie Wagner

Date of Bid Proposal: November 21, 1988

Terms of the Bid:

A FSLIC note with a 10 year maturity would be issued to Stoneridge in an amount equivalent to tangible GAAP net worth reduced by the value of the assets removed from the institutions by the FSLIC at closing. The rate on the note would equal the Six Month T-Bill rate with interest payable semi-annually and principal payable at term. The note is to be reduced by a premium equal to $30 million if FSLIC receives 20% of the tax benefits of NOLs or $20 million if FSLIC receives all such tax benefits.

Costing: Stoneridge Resources Inc.

Assuming FSLIC keeps Tax Benefits of NOLs
Actual NOL Tax Benefits not costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

		(in 000's) $ Basis	$ Present Value
1)	Net Worth Note [1]	$315,583	$158,826
2)	Recovery - Dearborn [2]	($ 14,188)	($ 10,687)
3)	Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
	Total Cost to FSLIC	**$284,340**	**$135,168**

---

1. The form of the infusion is assumed to be a FSLIC note. The principal amount of the note ($174,146,000) is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC and reduced by a $20,000,000 premium. The terms of the note include semi-annual interest payments at a rate equal to the six month TBill with principal payable at the end of 10 years.
2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.
3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

Costing: **Stoneridge Resources Inc.**

Assuming Stoneridge keeps 80% of Tax Benefits of NOLs
Actual NOL Tax Benefits not costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

(in 000's)

	$ Basis	$ Present Value
1) Net Worth Note [1]	$297,461	$149,705
2) Recovery - Dearborn [2]	($ 14,188)	($ 10,687)
3) Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
Total Cost to FSLIC	**$266,218**	**$126,047**

1. The form of the infusion is assumed to be a FSLIC note. The principal amount of the note ($164,146,000) is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC and reduced by a $30,000,000 premium. The terms of the note include semi-annual interest payments at a rate equal to the six month TBill with principal payable at the end of 10 years.
2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.
3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

Federal
Home Loan
Bank
Board

Memo

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
INTER-OFFICE COMMUNICATION

TO: **Carrie Wagner**
Financial Analyst, MAD
Roger Lerner
Regional Director, MAD

December 5, 1988

FROM: **Robert Nolan**
Financial Analyst, AED
Alvin James
Regional Director, AED

SUBJECT: **Michigan Plan Viability**

Over the last four quarters First Nationwide has generated a return on assets equal to 0.0653 percent. The First Nationwide proposal indicates Bloomfield and First Dearborn would be immediately merged into First Nationwide. Due to the relative size of First Nationwide to Bloomfield and First Dearborn, this memo is provided in lieu of a viability analysis.

(000s)

	Total Assets	Regulatory Net Worth	Total Liabilities
First Nationwide	$23,550,855	$1,023,266	$22,527,589
Bloomfield	$ 688,676	($ 26,143)	$ 714,819
First Dearborn	$ 192,348	($ 44,705)	$ 237,053
Total	$24,431,879	$ 952,418	$23,479,461

It is our understanding that First Nationwide has agreed to maintain its fully phased in capital requirements after acquisition of the Michigan Plan institutions. First Nationwide currently has a regulatory net worth to total liabilities ratio of 4.54 percent (excluding general reserves). Combining the balance sheets of the three institutions, without including FSLIC assistance or purchase accounting, regulatory net worth to total liabilities remains a satisfactory 4.06 percent (excluding general reserves). Therefore, viability is not considered an issue in this proposed acquisition.

Federal
Home Loan
Bank
Board

Memo

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATIO
INTER-OFFICE COMMUNICATION

428
429

TO: Carrie Wagner
Financial Analyst, MAD
Roger Lerner
Regional Director, MAD

December 14, 1988

FROM: Robert Nolan RN
Financial Analyst, AED
Alvin James AWJ
Regional Director, AED

SUBJECT: Michigan Plan

As you requested we have prepared the following updates of alternatives available under the Michigan Plan. In the original analysis dated December 1, 1988, it was noted that First Nationwide would be willing to modify its proposal to include a one basis point reduction in the yield rate it would receive on a FSLIC note for each $85,000 reduction in the premium it was required to pay.

This update summarizes the cost to FSLIC of reducing the yield to the six month TBill on a bond equivalent basis minus 200 basis points and correspondingly, reducing the premium to $20,711,000. Also included in this update is a revision of a costing dated December 12, 1988, which summarizes the cost to FSLIC of reducing the yield to the six month TBill on a bond equivalent basis minus 250 basis points and correspondingly, reducing the premium to $16,461,000.

Costing: First Nationwide

Yield: Six Month TBill minus 200 Basis Points
Premium: $20,711,000
Tax Benefits Not Costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

(In 000's)

		$ Basis	$ Present Value
1)	Net Worth Note[1]		
	- Interest	$114,121	$ 73,333
	- Principal	$173,435	$ 68,618
		$287,556	$141,951
2)	Recovery - Dearborn[2]	($ 14,188)	($ 10,687)
3)	Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
	Total Cost to FSLIC	$256,313	$118,293

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1. The form of infusion is assumed to be a FSLIC note. The principal amount of the note is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC and reduced by a $20,711,000 premium. The terms of the note are quarterly interest at a rate equal to the six month TBill on a bond equivalent basis minus 200 basis points with principal payable at the end of 10 years.

2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.

3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

Costing: First Nationwide
- Revised

Yield: Six Month TBill minus 250 Basis Points
Premium: $16,461,000
Tax Benefits Not Costed
September 1988 Quarterly Report Data
September 1988 Interest Rate Scenario

(In 000's)

		$ Basis	$ Present Value
1)	Net Worth Note[1] - Interest	$108,033	$ 69,406
	- Principal	$177,685	$ 70,299
		$285,718	$139,706
2)	Recovery - Dearborn[2]	($ 14,188)	($ 10,687)
3)	Recovery - Bloomfield[3]	($ 17,055)	($ 12,971)
	Total Cost to FSLIC	**$254,475**	**$116,048**

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1. The form of infusion is assumed to be a FSLIC note. The principal amount of the note is equal to Negative Tangible GAAP net worth increased by the net book value of assets retained by FSLIC and reduced by a $16,461,000 premium. The terms of the note are quarterly interest at a rate equal to the six month TBill on a bond equivalent basis minus 250 basis points with principal payable at the end of 10 years.

2. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $37,314,000 are assumed sold over five years at a loss of $16,777,000.

3. All non-performing loans, REO, and REH are to be retained by the FSLIC. These assets totaling $24,891,000 are assumed sold over five years at a loss of $5,033,000.

HOME FSLA & NORTHWEST

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: Michael Spaid
Financial Analyst, MAD

DATE: December 5, 1988

FROM: Lisa Scheckel fws
Financial Analyst, AED

RE: Review of Viability
Analysis of Home FS&LA
and Northwest FS&LA by
the FHLB of Des Moines

AED Review Statement

The Analysis and Evaluation Division has reviewed the most recent viability analysis of Home FS&LA (FHLBB No. 5627) and Northwest FS&LA (FHLBB No. 3754) in Spencer Iowa, prepared by the FHLB of Des Moines on December 2, 1988 (see attached).

Based upon my review of the viability results and subsequent conversations with FHLB Des Moines, I believe that the analysis is in conformity with AED's policies and procedures for conducting viability assessments. The Des Moines analysis was reviewed for accounting treatment, reasonableness of asset and deposit growth assumptions, appropriateness of (non-performing) asset disposition assumptions, appropriateness of the operating expense ratio, and general conformity with AED bid costing assumptions for the transaction. In each of these areas, the analysis was found to be consistent with AED policies and procedures.

The review process used for District Bank analyses is lower in scope than than the reviews conducted internally by AED staff for FSLIC-assigned (in-house) cases. Accordingly, AED's approval of this transaction on the basis of this review does not constitute an opinion or finding that the District Bank analysis is free from error, irregularity, or violation of law.

MEMORANDUM

TO: Lisa Scheckel
AED, FSLIC

DATE: December 2, 1988

FROM: Harlan K. Hanson
Supervisory Associate

RE: Amended Viability Analysis of:

Home FS&LA
Spencer, IA
FHLBB Docket No. 5627

and

Northwest FS&LA
Spencer, IA
FHLBB Docket No. 3754

* * * * *

At your request, I have amended the viability analysis of Home and Northwest of Spencer. The assumptions used in the analysis are the same as those described in my November 23, 1988, memorandum to Chau Nguyen with the following exceptions:

- Annual savings growth is approximately -5% in year one and approximately 2% thereafter.

- Miscellaneous income has been adjusted to reflect the $200,000 annual payments by Community Holdings to FSLIC for use of the NOL carryfowards. The amount of the adjustment was computed in the following way. Since miscellaneous income is based on a percentage of average assets, a new figure was computed based on average assets after adjusting for the new growth rate above. Then, $200,000 was subtracted each year from miscellaneous income, and the docket model was edited to reflect this.

- Adjustments were also made to the "add" rates for fixed rate mortgages and short-term cash. The November 23, 1988, analysis incorrectly showed negative amounts in new fixed rate mortgages for the first three years and a significant reduction in short-term cash in the first year. This was done in a attempt to free up cash to pay off FHLB advances; however, the model is designed to do this automatically. In the attached revised analysis, FHLB advances were paid from available income in a manner determined by the model itself.

Federal Home Loan Bank of Des Moines
Des Moines, Iowa

Based upon these changes, the analysis shows the institution with total assets of $240.9 million, total liabilities of $233.8 million and regulatory capital of $7.1 million or approximately 3% of liabilities immediately following the FSLIC-assisted merger. The institution generates net operating income beginning in the second year, and at the end of five years, the model projects total assets of $241.4 million, total liabilities of $201.2 million and regulatory capital of $13.5 million or approximately 6.7% of liabilities. Based on this analysis, Community's proposal results in a viable entity.

Harlan K. Hanson
Supervisory Associate

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7 IGENREPORT VANNUAL

 INPUT FILE:  CR3754
 OUTPT FILE:  V3754NO2

                                                         REVISED
                                  DOCKET 03754 - NORTHWEST FS AND LA OF SPENCER IN SPENCER, IA
                                                      BALANCE SHEET
                                                    12/02/88 AT 12:52

                                                               1           2           3           4           5
                                              ----------  ----------  ----------  ----------  ----------  ----------
MORTGAGE LOANS AND CONTRACTS
  ADJUSTABLE RATE                                 62,386      58,388      54,560      50,915      47,427      44,082
  1-4 FAMILY                                      46,695      41,900      38,105      34,577      31,096      28,007
  5+ DWELLING UNITS                                8,099       6,335       5,409       4,613       3,812       3,080
  SECOND MORTGAGES                                     4           0           0           0           0           0

  NEW FIXED RATE                                       0       1,977       4,142       8,772      12,717      15,826
  NEW VARIABLE RATE                                    0       4,417       9,272      19,691      28,230      34,825
  NEW SECOND MORTGAGES                                 0           0           0           1           1           2
    (DISCOUNTS)                                  (1,309)     (1,512)     (1,404)     (1,229)     (1,045)       (864)
                                              ----------  ----------  ----------  ----------  ----------  ----------
TOTAL MORTGAGES                                  115,875     111,506     110,084     117,339     122,238     124,958
MORTGAGE BACKED SECURITIES                             0           0           0           0           0           0

NONMORTGAGE LOANS
  COMMERCIAL                                          41          18          16          13          11           8
  CONSUMER                                         5,888       3,218       1,771       1,225         642         536

  NEW COMMERCIAL                                       0         865       1,848       3,953       5,777       7,280
  NEW AUTO LOAN                                        0         515         966       1,953       2,417       2,437
    (DISCOUNTS)                                    (307)       (186)       (114)        (70)        (46)        (36)
                                              ----------  ----------  ----------  ----------  ----------  ----------
TOTAL NONMORTGAGE LOANS                            5,622       4,430       4,487       7,074       8,801      10,225

GROSS NONPERFORMING MORTGAGES                     26,216      26,215      19,662       4,369           0           0
  (VAL. ALLOWANCE)                              (19,246)    (19,246)    (14,435)     (3,208)           0           0
                                              ----------  ----------  ----------  ----------  ----------  ----------
NET NONPERFORMING MORTGAGES                        6,970       6,970       5,227       1,162           0           0

   S OTHER NONPERF. LOANS                             57          57          43          10           0           0
    L. ALLOWANCE)                                     (9)         (9)         (7)         (2)          0           0
                                              ----------  ----------  ----------  ----------  ----------  ----------
NET OTHER NONPERF. LOANS                              48          48          36           8           0           0

GROSS ORIG. REO                                   17,345      17,345      13,009       2,891           0           0
  (VAL. ALLOWANCE)                                (8,121)     (8,121)     (6,091)     (1,354)           0           0
                                              ----------  ----------  ----------  ----------  ----------  ----------
NET ORIG. REO                                      9,224       9,224       6,918       1,537           0           0

GROSS NEW REO                                          0         936       1,212       1,330       1,473       1,563
  (VAL. ALLOWANCE)                                     0       (140)       (182)       (200)       (221)       (235)
                                              ----------  ----------  ----------  ----------  ----------  ----------
NET NEW REO                                            0         796       1,030       1,131       1,252       1,329

GROSS REM                                              0           0           0           0           0           0
  (VAL. ALLOWANCE)                                     0           0           0           0           0           0
                                              ----------  ----------  ----------  ----------  ----------  ----------
NET REM                                                0           0           0           0           0           0

CASH AND INVESTMENT SECURITIES
  DEMAND                                           2,668       2,230       2,167       2,198       2,211       2,284
  SHORT-TERM                                      25,066      22,646      22,645      25,066      25,056      25,066
  MEDIUM-TERM                                      2,900       2,900       2,900       3,211       3,555       3,937
  LONG-TERM                                        2,241       2,241       2,241       2,481       2,748       3,042
  NOTES RECEIVABLE                                59,630      59,630      59,632      59,630      59,630      59,630
    (DISCOUNTS)                                      106         112         112         102          92          80
                                              ----------  ----------  ----------  ----------  ----------  ----------
TOTAL CASH AND INVESTMENTS                        92,611      89,759      89,697      92,689      93,331      94,039

OTHER ASSETS
  FIXED ASSETS                                     1,585       1,645       1,703       1,773       1,841       1,911
  INVESTMENT IN SERVICE CORPORATIONS               3,419           0           0           0           0           0
  GOODWILL                                  0 ~~49,630~~           0           0           0           0           0
  OTHER ASSETS                                     5,587       5,141       5,749       7,419       5,153       8,360
                                              ----------  ----------  ----------  ----------  ----------  ----------
    L ASSETS                          240,941 ~~290,571~~    230,518     225,936     230,131     235,616     241,422
```

		1	2	3	4	5
LIABILITIES						
DEPOSITS						
AND TRANSACTION	14,750	15,035	15,326	15,622	15,925	16,233
PASSBOOK	13,256	13,512	13,774	14,040	14,312	[illegible]
MONEY MARKET	14,397	14,675	14,959	15,249	15,543	15,844
SHORT-TERM CD'S	62,497	66,869	68,162	69,480	70,824	72,194
MEDIUM-TERM CD'S	73,048	71,067	72,441	73,842	75,270	76,728
LONG-TERM CD'S	4,201	3,875	3,950	4,026	4,104	4,183
(DISCOUNTS)	(747)	(245)	(37)	(22)	(6)	0
TOTAL DEPOSITS	195,402	184,709	188,575	192,237	195,971	199,767
BORROWING						
FHLB ADVANCES SHORT-TERM (VARIABLE)	37,182	10,000	922	0	0	0
FHLB ADVANCES LONG-TERM (FIXED)	0	0	0	0	0	0
REPURCHASE AGREEMENTS	0	0	0	0	0	0
OTHER BORROWING - SHORT	0	0	0	0	0	0
OTHER BORROWING - LONG	0	0	0	0	0	0
NEW LIABS	0	0	0	0	0	0
DEBENTURES	0	0	0	0	0	0
LAST RESORT BORROWING	0	0	0	0	0	0
TOTAL BORROWING	37,182	10,000	922	0	0	0
OTHER LIABILITIES						
ACCRUED PAYABLES	684	966	1,003	1,046	1,090	1,136
DEFERRED CREDITS	0	0	0	0	0	0
OTHER LIABS	333	333	333	333	333	333
TOTAL LIABILITIES	233,801	196,088	190,834	193,616	197,394	201,236
NET WORTH						
STOCK	0	0	0	0	0	0
QUALIFYING SUBORDINATED DEBT	0	0	0	0	0	0
CCS	0	0	0	0	0	0
APPRAISED EQUITY	0	0	0	0	0	0
RETAINED EARNINGS	7,140 ~~66,770~~	7,756	8,434	9,843	11,545	13,507
TOTAL NET WORTH	7,140 ~~66,770~~	7,756	8,434	9,843	11,545	13,507
TOTAL LIABILITIES AND NET WORTH	240,941 ~~300,571~~	230,518	225,935	230,131	235,616	241,422
MEMO: LOAN SERVICING PORTFOLIO	25,673	27,267	29,049	30,939	32,928	35,016

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REVISED
DOCKET 03754 - NORTHWEST FS AND LA OF SPENCER I4 SPENCER, IA
INCOME STATEMENT
12/02/88 AT 12:52

	1	2	3	4	5
INCOME					
ORIGINAL RESIDENTIAL MORTGAGES	4,107	3,738	3,402	3,081	2,779
NEW RESIDENTIAL MORTGAGES	124	357	730	1,267	1,633
ORIGINAL ADJUSTABLE RATE MORTGAGES	5,763	5,330	5,141	4,878	4,623
NEW ADJUSTABLE RATE MORTGAGES	275	701	1,466	2,531	3,242
MULTIFAMILY MORTGAGES	646	577	490	414	338
NEW SECOND MORTGAGES	0	0	0	0	0
ACCRETION MORTGAGE DISCOUNTS	(203)	108	175	184	181
TOTAL MORTGAGE INTEREST	10,713	10,814	11,404	12,355	12,786
TOTAL MBS INTEREST	0	0	0	0	0
ORIGINAL COMMERCIAL LOANS INT	3	0	0	0	0
NEW COMMERCIAL LOANS INT	57	161	332	574	746
ORIGINAL CONSUMER LOANS INT	474	288	171	112	71
NEW CAR LOANS INT	48	120	228	354	373
ACCRETION OTH LOAN DISCOUNTS	121	72	44	24	10
TOTAL NONMORTGAGE LOAN INT	703	641	774	1,064	1,200
ORIGINATION FEES	7	7	3	8	9
SERVICING FEES	53	56	60	64	68
TOTAL MORTGAGE BANKING INCOME	59	63	67	72	76
TNATION FEES ON LOAN PORTFOLIO	131	151	322	286	243
AND SECURITIES INTEREST	2,532	2,427	2,621	2,740	2,809
..ED ASSETS INCOME	4	4	4	5	5
NOTES RECEIVABLE INTEREST	5,201	5,401	5,434	5,449	5,456
MISCELLANEOUS INCOME	1,006	1,156	1,153	1,148	1,166
GAIN (LOSS) ON SALES & VAL. ALLOWANCE CHANGES					
NONPERFORMING NONMORTGAGES	0	0	0	0	0
SERV CORP	(684)	0	0	0	0
NEW REO	(206)	(201)	(206)	(230)	(240)
GROSS INCOME	19,459	20,457	21,575	22,869	23,501

GAIN (LOSS) FROM MORTGAGE SALES IN DETAIL:

	1	2	3	4	5
EXPENSES					
INTEREST EXPENSE:					
SAVINGS	14,109	15,432	15,837	15,886	15,937
ADVANCES VARIABLE RATE	1,937	503	12	0	0
TOTAL INTEREST EXPENSE	16,046	15,935	15,849	15,886	15,937
OPERATING EXPENSES	4,271	4,020	4,009	4,101	4,200
FIXED ASSET DEPRECIATION	80	83	87	90	93
GOODWILL AMORTIZED	0 ~~59,630~~	0	0	0	0
TOTAL EXPENSE	20,397 ~~80,027~~	20,039	19,945	20,077	20,231
NET OPERATING INCOME	(938) ~~(60,568)~~	418	1,630	2,812	3,270
PLUS:FSLIC INFUSIONS	2,169	1,412	719	25	0
LESS:CASH DIVIDENDS	613	1,154	940	1,135	1,308
NET TO NET WORTH	618 ~~(59,012)~~	676	1,409	1,702	1,962

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                                                   REVISED
                         DOCKET 03754 - NORTHWEST FS AND LA OF SPENCER IN SPENCER, IA
                                               SOURCES AND USES
                                              12/02/88 AT 12:52
                                         1          2          3          4          5
                                    ---------- ---------- ---------- ---------- ----------

SOURCES

INTEREST PAYMENTS:
  MORTGAGES                           10,916     10,706     11,229     12,171     12,605
  MORT. BACKED SECURITIES                  0          0          0          0          0
  OTHER LOANS                            582        560        730      1,040      1,190

PRINCIPAL REDUCTION:
  MORTGAGES                            4,520      3,541      3,445      3,700      3,508
  MORT. BACKED SECURITIES                  0          0          0          0          0
  OTHER LOANS                          2,608      1,627        982      1,372      1,142
  NOTES RECEIVABLE                         0          0          0          0          0

PREPAYMENTS:
  MORTGAGES                            4,008      4,258      4,316      4,528      4,654
  MORT. BACKED SECURITIES                  0          0          0          0          0
  OTHER LOANS                              0          0          0          0          0

SALES:
  MORTGAGES                                0          0          0          0          0
  MORT. BACKED SECURITIES                  0          0          0          0          0
  OTHER LOANS                              0          0          0          0          0
  NONPERFORMING MORTGAGES                  0      1,743      4,066      1,162          0
  NONPERFORMING NONMORTGAGE LOANS          0         12         28          8          0
   IG. REO                                 0      2,306      5,381      1,537          0
     REO                                 372        905      1,068      1,179      1,282
   VICE CORP.                          2,735          0          0          0          0

OTHER SOURCES:
  ORIG. REO INCOME                         0          0          0          0          0
  NEW REO INCOME                           0          0          0          0          0
  REM INCOME                               0          0          0          0          0
  SERVICE CORPORATION                      0          0          0          0          0
  FIXED ASSETS                             4          4          4          2          5
  CASH AND SECURITIES INTEREST         2,526      2,427      2,631      2,753      2,821
  LOAN FEES                              131        151        322        286        243
  NOTES RECEIVABLE                     5,201      5,401      5,434      5,449      5,456
  NEW ASSET1                               0          0          0          0          0
  NEW ASSET2                               0          0          0          0          0
  FSLIC INFUSIONS                      2,169      1,412        719         25          0
  MORTGAGE BANKING INCOME                 59         63         67         72         76
  MISCELLANEOUS INCOME                 1,006      1,156      1,153      1,148      1,166
  MISCELLANEOUS INCOME2                    0          0          0          0          0

INCREASE (DECREASE) IN EQUITIES:
  SAVINGS                            (11,116)     3,578      3,649      3,718      3,790
  ADVANCES                           (27,182)    (9,070)      (922)         0          0
  BORROWINGS                               0          0          0          0          0
  NEW LIAB1                                0          0          0          0          0
  REPURCHASE AGREEMENTS                    0          0          0          0          0
  DEBENTURES (LIAB)                        0          0          0          0          0
  DEBENTURES (NW)                          0          0          0          0          0
  LAST RESORT BORROWING                    0          0          0          0          0
  PAYABLES                                32         37         42         44         46
  DEFERRED CREDITS                         0          0          0          0          0
  OTHER LIABILITIES                        0          0          0          0          0
  ICCS                                     0          0          0          0          0
  STOCK ISSUED                             0          0          0          0          0
                                    ---------- ---------- ---------- ---------- ----------

    TAL SOURCES                        (418)    30,818     44,345     40,195     37,984
```

	1	2	3	4	5
USES					
NEW LOANS:					
NEW 30Y-TERM FIXED RATE MORT	2,015	2,325	4,976	4,421	3,743
NEW VARIABLE-RATE MORT 30Y-TERM	4,514	5,208	11,146	9,903	8,385
NEW SECOND MORTGAGES	0	0	1	1	0
NEW MORT. BACKED SECURITIES 1	0	0	0	0	0
NEW MORT. BACKED SECURITIES 2	0	0	0	0	0
NEW MORT. BACKED SECURITIES 3	0	0	0	0	0
NEW OTHER LOANS FIXED RATE	0	0	0	0	0
NEW COMMERCIAL LOANS	870	1,004	2,149	1,910	1,617
NEW CAR LOANS	595	687	1,470	1,306	1,106
DIVIDEND AND INTEREST PAYMENTS:					
SAVINGS	13,606	15,224	15,823	15,870	15,931
ADVANCES	1,937	503	12	0	0
OTHER BORROWINGS	0	0	0	0	0
NEW LIABI	0	0	0	0	0
DEBENTURES (LIAB)	0	0	0	0	0
DEBENTURES (MM)	0	0	0	0	0
REPURCHASE AGREEMENTS	0	0	0	0	0
LAST RESORT	0	0	0	0	0
INCREASE (DECREASE) IN ASSETS:					
DEMAND	(438)	(63)	3[illegible]	43	43
SHORT-TERM	(2,420)	0	2,420	0	0
MEDIUM-TERM	0	0	31[illegible]	344	381
LONG-TERM	0	0	240	266	295
REH	0	0	0	0	0
FIXED ASSETS	141	146	152	158	164
SERVICE CORP.	0	0	0	0	0
OTHER ASSETS	554	606	669	735	806
ASSET1	0	0	0	0	0
ASSET2	0	0	0	0	0
OTHER USES:					
OPERATING EXPENSES	4,272	4,020	4,009	4,101	4,200
TAXES	0	0	0	0	0
CASH DIVIDENDS	613	1,154	940	1,135	1,308
TOTAL USES	26,259	30,817	44,343	40,192	37,932

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                                     REVISED
            DOCKET 03754 - NORTHWEST FS AND  LA OF SPENCER IN SPENCER, IA
                                  RATIO REPORT
                                12/02/88 AT 12:53
                                     PAGE 1

                                             1          2          3          4          5
                                          -------    -------    -------    -------    -------
YIELDS
------

MORTGAGE YIELD                             9.491%     9.775%    10.061%    10.234%    10.357%
MORT. BACKED SECURITIES YIELD               .000%      .000%      .000%      .000%      .000%
NONMORTGAGE LOAN YIELD                    14.700%    13.934%    11.100%    12.727%    12.454%
CASH AND INVESTMENTS YIELD                 9.470%     8.725%     8.790%     8.804%     8.822%
YIELD ON EARNING ASSETS                    9.164%     9.469%     9.591%     9.731%     9.812%

COST OF SAVINGS                            7.425%     8.264%     8.310%     8.105%     8.055%
COST OF BORROWINGS                         9.193%    10.000%    10.004%      .000%      .000%
COST OF MONEY                              7.602%     8.310%     8.319%     8.105%     8.055%

INT RATE SPREAD                            1.562%     1.099%     1.272%     1.547%     1.758%
INTEREST MARGIN                            1.495%     1.634%     2.070%     2.577%     2.784%

EARNING ASSETS LESS PAYING LIABILITIES    10,906     14,770     24,065     28,400     29,455

RATIOS
------

OPERATING EXPENSES TO AVERAGE ASSETS       1.761%     1.761%     1.761%     1.761%     1.761%
   INCOME TO AVERAGE ASSETS   .6426 [illegible]   .398%      .619%      .731%      .823%
   % INCOME TO TOTAL INCOME                5.167%     6.718%     7.172%     6.601%     6.339%

CASH AND INVESTMENTS TO TOTAL ASSETS      38.930%    39.700%    40.277%    39.612%    39.857%
EARNING ASSETS TO TOTAL ASSETS            83.232%    90.429%    94.330%    95.227%    94.946%
DEBT TO TOTAL ASSETS                       4.338%      .400%      .000%      .000%      .000%
NET WORTH TO TOTAL ASSETS                  3.805%     3.733%     4.277%     4.900%     5.595%
NET WORTH TO TOTAL LIABILITIES             3.956%     4.419%     5.004%     5.049%     5.712%

NONPERF. ASSETS TO TOTAL ASSETS            7.391%     5.040%     1.660%      .631%      .550%
FIXED RATE MORTS TO TOTAL MORTGAGES       43.675%    42.016%    39.820%    38.107%    35.851%

GROWTH RATES
------------

TOTAL ASSETS                (4.526%) [illegible]    (1.000%)     1.857%     2.383%     2.464%
SAVINGS                                   (5.431%)     2.049%     1.942%     1.942%     1.937%
BORROWINGS                               (73.105%)   (90.770%)  (100.000%)      .000%      .000%
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                                          REVISED
              DOCKET 03754 - NORTHWEST FS AND LA OF SPENCER IN SPENCER, IA
                                     FSLIC COST REPORT
                                     12/02/88 AT 12:53

                                   CASH         PV                                            CASH        PV
                                   COST        COST                                           COST       COST
                                -----------  -----------                                   ----------  ----------
CAPITAL LOSS TOTALS:                                      YIELD SUBSIDY COST TOTALS:
Nonperforming Mortgages                   0            0  Nonperforming Mortgages               1,442       1,290
Other Nonperforming Loans                 0            0  Other Nonperforming Loans                10           9
Original REO                              0            0  Original REO                          1,908       1,707
REO from New Defaults                     0            0  REO from New Defaults                   281         239
REM                                       0            0  REM                                       0           0
New Asset1                                0            0  New Asset1                                0           0
New Asset2                                0            0  New Asset2                                0           0
Service Corporations                    684          653                                   ----------  ----------
                                -----------  -----------  Total Income Subsidy                  3,641       3,245
Total Capital Loss Subsidy              634          653

Interest on FSLIC Notes              53,515       34,972  ICC Interest Payment                      0           0
Principal Reduction or Notes         59,630       23,867  ICC Principal Payment                     0           0
=====================================================================================================================

                                        1           2           3           4           5
                                   ----------  ----------  ----------  ----------  ----------
NOTES RECEIVABLE                       59,630      59,630      59,630      59,630      59,630

 FSLIC COST IN DOLLARS:
 ---------------------
FSLIC OUTFLOWS:

   CAPITAL LOSS SUBSIDY                   684           0           0           0           0
   YIELD SUBSIDY ON NONPERF. ASSETS     1,486       1,412         719          25           0
   INTEREST PAYMENTS ON NOTES           5,201       5,401       5,434       5,449       5,456
                                   ----------  ----------  ----------  ----------  ----------
TOTAL FSLIC OUTFLOW                     7,370       6,813       6,153       5,473       5,456
TOTAL FSLIC INFLOW                          0           0           0           0           0

NET FSLIC OUTFLOW                       7,370       6,813       6,153       5,473       5,456
  CUMULATIVE NET OUTFLOW                7,370      14,183      20,336      25,810      31,265
=====================================================================================================================
 PRESENT VALUE OF FSLIC COST:
 ---------------------------
FSLIC OUTFLOWS:

CAPITAL LOSS SUBSIDY                      653           0           0           0           0
YIELD SUBSIDY ON NONPERF. ASSETS        1,418       1,232         576          18           0
INTEREST PAYMENTS ON NOTES              4,963       4,701       4,311       3,940       3,556
                                   ----------  ----------  ----------  ----------  ----------
TOTAL FSLIC OUTFLOW                     7,034       5,933       4,887       3,958       3,556
TOTAL FSLIC INFLOW                          0           0           0           0           0

NET FSLIC OUTFLOW                       7,034       5,933       4,887       3,958       3,556
  CUMULATIVE NET OUTFLOW                7,034      12,967      17,854      21,813      25,408
=====================================================================================================================
BIDDER ACTIVITY:
---------------
FIXED INFUSIONS:
  CASH                                  7,140           0           0           0           0
                                   ----------  ----------  ----------  ----------  ----------
  TOTAL FIXED INFUSIONS                 7,140           0           0           0           0
NW/LIAB MAINTENANCE
-------------------
  TOTAL MAINTENANCE CONTR.                  0           0           0           0           0
                                   ----------  ----------  ----------  ----------  ----------
TOTAL BIDDER INFUSION                   7,140           0           0           0           0
  CUMULATIVE BIDDER INFUSION            7,140       7,140       7,140       7,140       7,140
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REVISED
DOCKET C3754 - NORTHWEST FS AND LA OF SPENCER IN SPENCER, IA
CAPITAL LOSS COVERAGE AND YIELD COVERAGE DETAIL REPORT
12/02/88 AT 12:53

		1	2	3	4	5
COVERED ASSETS:						
Gross Nonperforming Mortgages	26,216	26,216	19,662	4,369	0	0
(Valuation Allowance)	(19,246)	(19,246)	(14,435)	(3,208)	0	0
Net Nonperforming Mortgages	6,970	6,970	5,227	1,162	0	0
Gross Other Nonperforming Loans	57	57	43	10	0	0
(Valuation Allowance)	(9)	(9)	(7)	(2)	0	0
Net Other Nonperforming Loans	48	48	36	8	0	0
Gross Original REO	17,345	17,345	13,009	2,891	0	0
(Valuation Allowance)	(8,121)	(8,121)	(6,091)	(1,354)	0	0
Net Original REO	9,224	9,224	6,918	1,537	0	0
REO from New Defaults	0	905	1,102	1,090	1,021	938
Gross REH	0	0	0	0	0	0
(Valuation Allowance)	0	0	0	0	0	0
Net REH	0	0	0	0	0	0
New Asset1	0	0	0	0	0	0
New Asset2	0	0	0	0	0	0
Service Corporations	3,419	0	0	0	0	0
Total Covered Assets	19,661	17,148	13,284	3,796	1,021	938
LOSSES ELIGIBLE FOR COVERAGE:						
Other Nonperforming Loans	0	0	0	0	0	0
REO from New Defaults	0	65	151	166	160	148
Service Corporations	0	684	0	0	0	0
Total Losses Eligible for Coverage	0	749	151	166	160	148
CAPITAL LOSS COVERAGE						
Other Nonperforming Loans	0	0	0	0	0	0
Service Corporations	0	684	0	0	0	0
Total Capital Loss Coverage	0	684	0	0	0	0
YIELD SUBSIDIES ON NONPERF. ASSETS:						
Nonperforming Mortgages	0	613	564	265	0	0
Other Nonperforming Loans	0	4	4	2	0	0
Original REO	0	811	746	351	0	0
REO from New Defaults	0	58	98	101	25	0
Total Yield Subsidy	0	1,486	1,412	719	25	0
PRESENT VALUE OF YIELD SUBSIDIES:						
Nonperforming Mortgages	0	585	492	213	0	0
Other Nonperforming Loans	0	4	3	1	0	0
Original REO	0	774	652	282	0	0
REO from New Defaults	0	55	85	80	18	0
Total Yield Subsidy	0	1,418	1,232	576	18	0

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                                        REVISED
              DOCKET 03751 - NORTHWEST FS AND LA OF SPENCER IN SPENCER, IA
                         Purchase Accounting Adjustment Report
                                  12/02/88 AT 12:55

                        6 MONTHS   >6 MONTHS     >1 TO 3     >3 TO 5    >5 TO 10   >10 TO 20
                         OR LESS   TO 1 YEAR       YEARS       YEARS       YEARS       YEARS   >20 YEARS        TOTAL
                       ---------   ---------   ---------   ---------   ---------   ---------   ---------    ---------

Nonperforming Mortgages
 Adjustable Rate    |      4,662 |     3,817 |     2,350 |       705 |       506 |       137 |         0 |     12,216
 1-4 Family Res     |         22 | [illegible] | [illegible] | [illegible] | [illegible] |  1,[illegible] |   944 | [illegible]
 Multifamily & Oth  |      1,102 | [illegible] |     335 |       35[illegible] |  5,[illegible] |  3,35[illegible] |    34 |  11,[illegible]
 Second Mortgages   |          0 |         0 |         0 |         0 |         0 |         0 |         0 |          0

Other Nonperforming Loans
 Consumer Loans     |          7 |         3 |        14 |        13 |         5 |         7 |         0 |         45
 Commercial Loans   |          6 |         0 |         0 |         0 |         0 |         0 |         0 |         12


New Mortgage Balances
 Adjustable Rate    |     23,807 |    19,491 |    12,214 |     3,603 |     2,582 |       599 |         0 |     62,386
 1-4 Family Res     |        343 |        47 | [illegible] |  1,[illegible] |  4,9[illegible] |  25,366 |    14,691 | [illegible]
 Multifamily & Oth  |        611 |         0 |       245 |       280 |     4,276 |     2,473 |        22 |      8,094
 Second Mortgages   |          0 |         4 |         3 |         0 |         0 |         0 |         0 |          4

  Nonmortgage Loan Balances
 Consumer Loans     |        929 |       394 |     1,805 |     1,767 |       631 |       377 |         0 |      5,000
 Commercial Loans   |         21 |         0 |         3 |         0 |        20 |         0 |         0 |         41


                       Writedowns and Changes in Balance Sheet Accounts


Writedowns:                                          Other Balance Sheet Account Changes:
 Nonperforming Mortgages                   0          Fixed Assets                                       0
 Other Nonperforming Loans                 0          Appraisal Increment                                0
 Fixed Assets                              0          Unearned Discounts                             (477)
 Service Corporations                      0          Deferred Losses                          (2,[illegible])
 Other Assets                              0          Net Worth                                 5[illegible]
                                                      Nonperforming Mortgages                   2[illegible]
Changes in Valuation Allowances                       Other Nonperforming Loans                         57
 Nonperforming Mortgages                   0
 Other Nonperforming Loans                 0
 Real Estate Owned                         0
 Real Estate Held for Investmt             0


                                  Market Losses (Gains)

Assets:                                             Liabilities:

Medium-term Cash                          24         Medium-term Deposits                           (685)
Long-term Cash                          (130)        Long-term Deposits                              (63)
                                                     Long-term Advances                                0
Mortgages                              1,300         Long-term Other Borrowing                         0
Non-mortgage Loans                       307         Non-qualifying Debenture                          0
                                                     Qualifying Debenture                              0


     total adjustment to goodwill is        59,630
  the initial value of goodwill is          55,630
```

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: Michael Spaid
Financial Analyst, MAD

DATE: September 21, 1988

FROM: Carlos M. Fiol
Regional Director, AED

Lisa Scheckel
Financial Analyst, AED

SUBJECT: Re-bid Costing of Community Holdings bid for Home and Northwest FS&LAs

We have completed our analysis of the re-bid submitted for acquisition of both Home FS&LA (FHLBB No. 5627) and Northwest FS&LA (FHLBB No. 3754) by Community Holdings, Ltd.

The terms of the proposal were clarified through conference call to the bidder. The cost of the revised proposal was then calculated and compared to the cost of the original proposals submitted by both Community Holdings and World S&LA. The results of this comparison are presented below.

COST SUMMARY

	CASH BASIS	PRESENT VALUE
COST OF LIQUIDATION:		
Home FS&LA	$ 5,876,000	$ 9,484,000
Northwest FS&LA	55,791,000	69,882,000
Total Liquidation Cost	$ 61,667,000	$ 79,366,000
COST OF BIDS (in Ascending Order of Present Value Cost):		
World Savings and Loan	$ 53,727,097	$ 54,305,313
Community Holdings Re-bid	109,917,870	54,766,149
Community Holdings Original	73,471,737	60,693,846

Our analysis shows that the cost of Community Holdings' re-bid is lower than the cost of their original bid by $5.928 million. The cost of the re-bid is a scant $.461 million more costly than the original bid submitted by World S&LA. Moreover, to the extent that AED's loss estimates are understated, the Community Holdings re-bid will be less expensive than the original bid submitted by World (for clarification, see footnote d, page 7 of this summary).

Bid Costing of Community Holdings Re-bid (9/21/88) - pp. 2

BID COSTING ASSUMPTIONS

Major Assumptions:

- Financial data from the June 1988 Quarterly Thrift Report, updated to reflect major changes in the thrifts' financial position since June, were utilized.
- The volume of non-performing assets and their associated loss estimates were the same as those used in the liquidation analyses dated September 7, 1988.
- The June 1988 AED Base Rate Scenario was utilized, and all FSLIC financial assistance was discounted using a constant 10.35% Cost of Capital.
- Legal expenses obtained from the liquidation analyses of Home and Northwest have been added to the cost of the bid as a proxy measure of FSLIC liability for indemnity against litigation and claims.

Detailed analytical assumptions specific to the Community Holdings re-bid are contained in the footnotes accompanying the bid summary which follows. The footnotes should be considered an integral part of the analysis.

Home FS&LA and Northwest FS&LA
(FHLBB Nos. 5627 and 3754)
Spencer, IA

Bidder:	Community Holdings, Ltd. Creston, Iowa **RE-BID**	**AED Analyst:**	Lisa Scheckel
		MAD Analyst:	Michael Spaid

I. FORM OF PROPOSED TRANSACTION

Community Holdings, Ltd. is a consortium of investors that proposes to establish "Newco" Holding Company with a total cash equity contribution of $7,150,000. Newco Holding Company will then acquire 100% of the voting common stock of the merged thrifts, following their supervisory conversion to a federally-chartered stock institution, in exchange for a cash infusion of $7,150,000.

II. FINANCIAL ASSISTANCE FROM FSLIC

Community Holdings requests that the FSLIC provide the following forms of financial assistance:

A. A Note for Negative Net Worth of the combined thrifts at acquisition. Net worth is to be calculated as GAAP net worth with the following adjustments: 1) recording of additional valuation allowances on loans and REO so that total valuation allowances equal at least $30.000 million, 2) write-off of: accrued interest receivable past due more than 60 days, all deferred losses, all investment (equity and debt) in subsidiaries, and prepaid expenses which cannot be refunded upon cancellation of services.

The note is to have a ten year term with the entire principal due at maturity. Interest will be payable semi-annually at a rate equivalent to the Six Month TBill yield plus 100 BP. Interest is to be computed on a monthly basis.

B. Capital Loss Coverage, payable semi-annually for a period of 5 years, in an amount equal to 95% of unreserved losses, after the first $.500 million in unreserved losses. Covered assets include all mortgage loans greater than $.400 million, all loans past due greater than 60 days, and all items identified as REO and REJ on the date of acquisition.

C. Yield Subsidy, payable semi-annually for a period of three years, equivalent to the Six Month TBill yield plus 100 BP. Yield subsidy is to be provided on the net book value of covered assets listed in paragraph II.B. above, as well as on the gross book value of Mortgage-backed Securities and other investment securities.

III. FINANCIAL ASSISTANCE FROM THE BIDDER

Financial infusions and considerations offered by Community Holdings include:

A. Initial capital infusion in the amount of $7.150 million.

B. Assumption of the first $.500 million in unreserved losses incurred on the disposition of covered assets.

C. Guaranteed payment to the FSLIC of $.200 million per year for ten years, in consideration for the tax benefits resulting from the acquisition.

D. Pay back to the FSLIC for 80% of the gains realized on disposition of the Trinity Mortgage Company, Northwest's wholly-owned subsidiary. The bidder guarantees a minimum of $.300 million to be paid to the FSLIC under this gain-sharing arrangement.*

* The entire book value of the Trinity Mortgage Company ($7.301 million) is included in the Net Worth Note principal. Moreover, Community Holdings intends to write-down the book value of Trinity to zero at acquisition so that any sale proceeds, net of disposition costs, will constitute a "gain" under this arrangement. AED estimates Trinity's disposition value at $3.584 million. The FSLIC's 80% share of the gain is therefore estimated to be $2.867 million.

IV. COST OF COMMUNITY HOLDINGS' REVISED PROPOSAL

	Assistance	Cash Basis	Present Value
1.	Net Worth Note Principal[b]	$ 57,462,000	$ 21,461,366
2.	Net Worth Note Interest[c]	52,524,578	32,506,085
3.	Capital Loss Coverage[d]	0	0
4.	Yield Subsidy[c]	2,734,292	2,495,278
5.	Tax Benefit Share[e]	(2,000,000)	(1,086,117)
6.	Gain on Service Corporation[f]	(2,867,000)	(2,473,463)
7.	Legal Expense[g]	2,064,000	1,863,000
	Total Bid Cost	$ 109,917,870	$ 54,766,149

V. ESTIMATED FIRST YEAR CASH OUTLAYS (000s)

	SEMI-ANNUAL PERIOD 1	SEMI-ANNUAL PERIOD 2
Note Principal	$ 0	$ 0
Note Interest	2,492	2,576
Yield Subsidy	1,197	848
Capital Losses	0	0
Tax Benefit Share	0	(200)
Gain on Serv. Corp.	(717)	(717)
Legal Expenses	516	516
Total Outlays	$ 3,488	$ 3,023
Cumulative Outlay	$ 3,488	$ 6,511

The footnotes accompanying the Community Holdings re-bid cost summary begin on the following page.

Bid Costing of Community Holdings Re-bid (9/21/88) - pp. 6

[b] Community Holding Ltd.'s estimate of the net worth deficit for both thrifts at acquisition is $61.250 million. AED's estimate is $57.462 million, hence the bidder's estimate is higher by $3.788 million. This difference is composed of:

1) The bidder's inclusion of $.585 million in mark-to-market adjustments (losses) for MBS and other investment securities (AED's figure does not include this adjustment since the bidder requested yield maintenance on the gross book value of these investments).

2) The bidder's inclusion of $3.088 million in estimated operating losses and that will be incurred prior to date of acquisition.

3) The bidder's request for additional reserves to be booked at acquisition ($.115 million) that are in excess of AED's liquidation estimate of total losses.

AED's estimate of the negative net worth of the combined thrifts according to the bidder's definition is as follows (in 000s):

RAP Net Worth at 6/30/88	$ (35,331)
Reserves Booked 6/30/88 to 8/10/88	(1,560)[1]
Reserves to be Booked prior to 8/31/88	(9,400)[1]
All Remaining Estimated Unreserved Losses	(650)[2]
Non-GAAP Qualifying Capital	0
Write-off of Deferred Losses	(2,900)
Investment in Subsidiaries	(7,314)
Accrued Interest 60+ days Delinquent	0
Non-refundable Pre-paid Expenses	(307)
Net Worth Note Principal	$ (57,462)

[1] Information obtained from FHLB Des Moines.

[2] Additional unreserved losses on loans, REO and REJ as used in the liquidations for both thrifts. Total losses expected on loans and REO have changed materially since the bidder completed its due diligence. Both thrifts have taken write-downs on REO, reversed a portion of REO reserves and established additional reserves on loans. The bidder's estimate of $30.000 million for total reserves at acquisition is therefore erroneous. AED's estimate of total capital losses (reserved and unreserved) for the combined thrifts is $17.975 million. FHLB Des Moines, in an update received after our analysis was completed, estimates liberally that total losses could be larger by 20% of this figure, or $3.595 million.

[c] Interest payments on the note and the yield subsidy rate were derived using the forecast for the Six Month TBill yield contained in the AED June 1988 Base Rate Scenario, plus 100 points. Sales of covered assets other than investment securities are assumed to take place ratably over two years following acquisition. This sales rate was deemed appropriate in view of the low yield subsidy rate, which provides minimal incentive to retain covered assets post-acquisition. MBS and other investment securities are assumed to be held till maturity.

[d] Since all losses (reserved and estimated unreserved additional losses) are assumed to be capitalized into the net worth coverage at acquisition, capital loss coverage is effectively zero. Recall also that, in the event that there are unreserved additional losses incurred, Community Holdings will assume the first $.500 million of such loss. If AED's loss estimates are in error (too low) by more than $.500 million, capital loss coverage for the Community Holdings re-bid will be understated.

More importantly: to the extent that AED's loss estimates are too low, the Community Holdings Re-bid will become less expensive than the original bid submitted by World S&LA. In the Community Holdings re-bid, the bidder will assume the first $.500 million in additional unreserved losses and the FSLIC will assume 95% of losses in excess of this amount. This arrangement is more favorable than the capital loss coverage agreement contained in the World bid, which requires the FSLIC to pay for 100% of all additional unreserved losses.

[e] The tax benefit share cash flow stream is guaranteed to equal $.200 million per year for ten years. It is discounted using the DBL Long-term Junk Bond Index at 6/30/88 from the June 1988 FSLIC Base Rate Scenario, or 12.98%

[f] As with other covered assets, the disposition of Service Corporation holdings is assumed to take place ratably over the two years following acquisition. The gain on disposition equals 80% of the estimated recovery of Trinity's net assets, payable semi-annually for two years. It is discounted using the DBL Medium Term Junk Bond Index at 6/30/88 from the June 1988 FSLIC Base Rate Scenario, or 12.74%.

[g] Legal expenses generated in the receivership analyses of Home and Northwest, used here as a proxy for FSLIC's liability under Community Holding's requested indemnification against litigation expenses.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

FROM: Carlos M. Fiol
Regional Director, AED

Lisa W. Scheckel LWS
Financial Analyst, AED

DATE: September 7, 1988

TO: Michael Spaid
Financial Analyst, MAD

SUBJECT: Bid Costings for Home FS&LA and Northwest FS&LA

We have completed our analysis of bids submitted for acquisition of both Home FS&LA (FHLBB No. 5627) and Northwest FS&LA (FHLBB No. 3754) in Spencer, Iowa. Bids submitted by the following two bidders were included in the analysis:[a]

- World S&LA of Oakland, California (FHLBB No. 6717).
- Community Holdings, Ltd. of Creston, Iowa.

The terms of each proposal were clarified through conference call to the bidders. The cost of each proposal was then calculated and compared to the cost of liquidation for Home and Northwest. The results of this comparison are presented below.

COST SUMMARY

	CASH BASIS	PRESENT VALUE
COST OF LIQUIDATION:		
Home FS&LA	$ 5,876,000	$ 9,484,000
Northwest FS&LA	55,791,000	69,882,000
Total Liquidation Cost	**$ 61,667,000**	**$ 79,366,000**
COST OF BIDS (in Ascending Order of Present Value Cost):		
World Savings and Loan	$ 53,727,097	$ 54,305,313
Community Holdings, Ltd.	73,471,737	60,693,846

[a] Per MAD, the bid from Frank Farrar was not included in the analysis, as it was non-conforming to the bid package instructions.

BID COSTING ASSUMPTIONS

The assumptions listed on this page were inherent in the bid costing process for both of the bids submitted. Analytical assumptions specific to each bid are noted in the bid summaries contained on the following pages. The footnotes contained in the bid summaries are an integral part of this analysis.

Major Assumptions:

- Financial data from the June 1988 Quarterly Thrift Report, updated to reflect major changes in the thrifts' financial position since June, were utilized.
- The volume of non-performing assets and their associated loss estimates were the same as those used in the liquidation analyses dated September 7, 1988.
- The June 1988 AED Base Rate Scenario was utilized, and all FSLIC financial assistance was discounted using a constant 10.35% Cost of Capital.
- Legal expenses obtained from the liquidation analyses of Home and Northwest have been added to the cost of each bid as a proxy measure of FSLIC liability for indemnity against litigation, a requirement in each of the bids submitted.
- In cases where a yield subsidy and/or capital loss coverage is requested for assets that will become covered assets following acquisition, the forecast for new loan defaults derived from the liquidation analyses of Home and Northwest was used as a proxy for the volume of these assets. Losses on new loan defaults were estimated by applying the loss rates on existing loans (from the liquidation analyses) to the forecast volume of new loan defaults.

Home FS&LA and Northwest FS&LA
(FHLBB Nos. 5627 and 3754)
Spencer, IA

Bidder:	World S&LA FHLBB No. 6717 Oakland, CA	AED Analyst:	Lisa Scheckel
		MAD Analyst:	Michael Spaid

I. FORM OF PROPOSED ACQUISITION

World S&LA, a wholly-owned subsidiary of Golden West Financial Corporation, is a federally chartered capital stock association with total assets of $13.7 billion and GAAP net worth of $793 million as of March 31, 1988. The precise form of the proposed acquisition is not specified in the World bid. Home and Northwest will either be merged into World or held as a separate subsidiary of Golden West Financial Corporation.

II. FINANCIAL ASSISTANCE FROM FSLIC

World requests the following forms of FSLIC financial assistance:

A. Initial Cash Infusion sufficient to restore the combined negative net worth of Home and Northwest to zero as of the date of acquisition. The deficit is to be measured as RAP net worth, increased (made more negative) by the amount of deferred losses. The net worth cash infusion is to be reduced by $2.000 million, World's assumption of the combined deficit of the two associations.

B. Capital Loss Coverage, payable quarterly for 5 years, on all unreserved losses incurred on the disposition of covered assets.

Covered assets include: accrued interest receivable, all loans delinquent 60 days or more, all construction loans, Troubled Debt Restructurings, Loans to Facilitate, time-share loans, mobile home loans, automobile loans, REO, REJ, and REI. Assets that fall into one of the aforementioned categories within 12 months following acquisition also qualify as covered assets.

C. Capital Loss Coverage, payable quarterly for 5 years, for all losses on debt and equity in any and all subsidiaries of Northwest and Home.

D. Yield Subsidy, adjusted and payable quarterly for a period of five years, sufficient to guarantee a yield on covered assets equivalent to the Six Month TBill rate plus 100 Basis Points (BP). The yield subsidy applies to the net book value of covered assets as described in paragraph II.B. on the preceding page and is not to encompass debt and equity in the subsidiaries of Home and Northwest.

III. FINANCIAL ASSISTANCE FROM THE BIDDER

A. World will assume $2.000 million of the combined negative net worth of the two associations at acquisition, and cause the net worth of the combined institutions to be maintained at regulatory levels post-acquisition.

B. World will transfer 60% of all of the tax benefits derived both from utilization of outstanding NOLs and from "built-in" losses resulting from disposition of Covered Assets. Furthermore, World will guarantee that the FSLIC receives at least $5.000 million in tax benefits by the end of the life of the assistance agreement (5 years).

IV. COST OF THE WORLD PROPOSAL

Assistance	Cash Basis	Present Value
1. Cash for Net Worth[b]	$ 47,191,000	$ 47,191,000
2. Capital Loss Coverage[c]	5,175,000	4,455,814
3. Yield Subsidy[d]	4,297,097	3,851,182
4. Legal Expenses[e]	2,064,000	1,863,000
4. Payback of Tax Benefits[f]	(5,000,000)	(3,055,683)
Total Bid Cost	$ 53,727,097	$ 54,305,313

V. ESTIMATED FIRST YEAR CASH OUTLAYS (000s)

	AT ACQUISITION	QTR 1	QTR 2	QTR 3	QTR 4
Cash for Deficit	$ 47,191	$ 0	$ 0	$ 0	$ 0
Capital Losses	0	659	616	567	519
Yield Subsidy	0	510	510	365	365
Legal Expenses	0	258	258	258	258
Total Outlays	$ 47,191	$ 1,427	$ 1,384	$ 1,190	$ 1,142
Cumulative Outlay	$ 47,191	$ 48,618	$ 50,002	$ 51,192	$ 52,334

The footnotes accompanying this summary are contained on the following page.

Footnotes to Accompany World Bid Cost Summary:

[b] The cash infusion to cover the deficit net worth of the combined thrifts was calculated in the following manner [all data in (000s)]:

RAP Net Worth at 6/30/88	$	(35,331)
Reserves Booked 6/30/88 to 8/10/88		(1,560)[1]
Reserves to be Booked prior to 8/31/88		(9,400)[1]
Write-off of Deferred Losses		(2,900)
Adjusted Net Worth	$	(49,191)
World's Absorption		2,000
FSLIC Cash Infusion	$	(47,191)

[1] Information obtained from FHLB Des Moines.

[c] For purposes of calculating capital loss coverage and yield subsidy payments, covered assets (with the exception of accrued interest receivable) are assumed to be sold ratably over the first two years following acquisition. This sales rate was selected based upon the low yield subsidy rate, which provides no incentive to retain covered assets post-acquisition. Losses on accrued interest receivable are taken ratably during quarters one and two only.

[d] The yield subsidy rate was derived using the forecast for the Six Month TBill yield in the June 1988 AED Base Rate Scenario, plus 100 BP.

[e] Legal expenses generated in the receivership analyses of Home and Northwest, used here as a proxy for FSLIC's liability under World's requested indemnification against litigation expenses.

[f] The minimum value of payment for tax benefits is included in the bid cost, assuming that no net income is earned in 5 years and that no operating losses are generated on the disposition of acquired assets. Under these assumptions, World will pay the FSLIC $5.000 million at the end of year five. The payment is discounted at 10.35% by virtue of World's AA bond rating.

Home FS&LA and Northwest FS&LA
(FHLBB Nos. 5627 and 3754)
Spencer, IA

Bidder:	Community Holdings, Ltd. Creston, Iowa	**AED Analyst:**	Lisa Scheckel
		MAD Analyst:	Michael Spaid

I. FORM OF PROPOSED TRANSACTION

Community Holdings, Ltd. is a consortium of investors that proposes to establish "Newco" Holding Company with a total cash equity contribution of $7,150,000. Newco Holding Company will then acquire 100% of the voting common stock of the merged thrifts, following their supervisory conversion to a federally-chartered stock institution, in exchange for a cash infusion of $7,150,000.

II. FINANCIAL ASSISTANCE FROM FSLIC

Community Holdings requests that the FSLIC provide the following forms of financial assistance:

A. Coverage of Negative Net Worth of the combined thrifts in the form of cash and a note. Net worth is to be calculated as GAAP net worth with the following adjustments: 1) recording of additional valuation allowances on loans and REO so that total valuation allowances equal at least $30.000 million, 2) write-off of: accrued interest receivable past due more than 60 days, all deferred losses, all investment (equity and debt) in subsidiaries, and prepaid expenses which cannot be refunded upon cancellation of services.

Of the total net worth coverage required, $12.250 million is to be in cash and the remainder in the form of a note. The note will have a five year term, with principal amortized in equal semi-annual installments. Interest on the outstanding balance is payable semi-annually at a rate of Six Month TBill yield plus 100 BP.

B. Capital Loss Coverage, payable semi-annually for a period of 5 years, in an amount equal to 95% of unreserved losses (i.e. losses in excess of $30.000 million) incurred on the disposition of covered assets. Covered assets include all mortgage loans greater than $.400 million, all loans past due greater than 60 days, and all items identified as REO and REJ on the date of acquisition.

C. Yield Subsidy, payable semi-annually for a period of three years, equivalent to the Six Month TBill yield plus 100 BP. Yield subsidy is to be provided on the net book value of covered assets listed in paragraph II.B. above, as well as on the gross book value of Mortgage-backed Securities and other investment securities.

III. FINANCIAL ASSISTANCE FROM THE BIDDER

Financial infusions and considerations offered by Community Holdings include:

A. Initial capital infusion in the amount of $7.150 million.

B. Community Holdings will pay the FSLIC for 50% of all federal income tax benefits resulting from the acquisition for a period to include 5 tax settlement periods, as filed by Newco.

IV. COST OF THE COMMUNITY HOLDINGS PROPOSAL

	Assistance	Cash Basis	Present Value
1.	Cash Net Worth Infusion[g]	$ 12,250,000	$ 12,250,000
2.	Net Worth Note Principal[g]	45,212,000	34,830,934
3.	Net Worth Note Interest[h]	11,211,445	9,254,634
4.	Capital Loss Coverage[i]	0	0
5.	Yield Subsidy[h]	2,734,292	2,495,278
6.	Legal Expense[j]	2,064,000	1,863,000
	Total Bid Cost	$ 73,471,737	$ 60,693,846

The footnotes accompanying the Community Holdings cost summary begin on page 9.

Bid Costings for Home and Northwest FS&LA/Sept. 7, 1988 - pp. 8

V. ESTIMATED FIRST YEAR CASH OUTLAYS (000s)

	AT ACQUISITION	SEMI-ANNUAL PERIOD 1	SEMI-ANNUAL PERIOD 2
Cash for Deficit	$ 12,250	$ 0	$ 0
Note Principal	0	4,521	4,521
Note Interest	0	1,961	1,824
Yield Subsidy	0	1,197	848
Capital Losses	0	0	0
Legal Expenses	0	516	516
Total Outlays	$ 12,250	$ 8,195	$ 7,709
Cumulative Outlay	$ 12,250	$ 20,445	$ 28,154

Bid Costings for Home and Northwest FS&LA/Sept. 7, 1988 - pp. 9

Footnotes to Accompany the Community Holdings bid cost summary:

[9] Community Holding Ltd.'s estimate of the net worth deficit for both thrifts at acquisition is $61.250 million. AED's estimate is $57.462 million. The bidder's estimate is higher by $3.788 million. This difference is composed of:

1) The bidder's inclusion of $.585 million in mark-to-market adjustments (losses) for MBS and other investment securities (AED's figure does not include this adjustment since the bidder requested yield maintenance on the gross book value of these investments).

2) The bidder's inclusion of $3.088 million in estimated operating losses and that will be incurred prior to date of acquisition.

3) The bidder's request for additional reserves to be booked at acquisition ($.115 million) that are in excess of AED's liquidation estimate of total losses.

AED's estimate of the negative net worth of the combined thrifts according to the bidder's definition is as follows (in 000s):

RAP Net Worth at 6/30/88	$	(35,331)
Reserves Booked 6/30/88 to 8/10/88		(1,560)[1]
Reserves to be Booked prior to 8/31/88		(9,400)[1]
All Remaining Estimated Unreserved Losses		(650)[2]
Non-GAAP Qualifying Capital		0
Write-off of Deferred Losses		(2,900)
Investment in Subsidiaries		(7,314)
Accrued Interest 60+ days Delinquent		0
Non-refundable Pre-paid Expenses		(307)
Total Adjusted Deficit	$	(57,462)
Portion in Cash	$	12,250
Portion in Note	$	45,212

[1] Information obtained from FHLB Des Moines.

[2] Additional unreserved losses on loans, REO and REJ as used in the liquidations for both thrifts. Total losses expected on loans and REO have changed materially since the bidder completed its due diligence. Both thrifts have taken write-downs on REO, reversed a portion of REO reserves and established additional reserves on loans. The bidder's estimate of $30.000 million for total reserves at acquisition is therefore erroneous. AED's estimate of total capital losses (reserved and unreserved) for the combined thrifts is $17.975 million. FHLB Des Moines, in an update received after our analysis was completed, estimates liberally that total losses could be larger by 20% of this figure, or $3.595 million.

[h] Interest payments on the note and the yield subsidy rate were derived using the forecast for the Six Month TBill yield contained in the AED June 1988 Base Rate Scenario, plus 100 points. Sales of covered assets other than investment securities are assumed to take place ratably over two years following acquisition. This sales rate was deemed appropriate in view of the low yield subsidy rate, which provides minimal incentive to retain covered assets post-acquisition. MBS and other investment securities are assumed to be held till maturity.

[i] Since all losses (reserved and estimated unreserved additional losses) are assumed to be capitalized into the net worth coverage at acquisition, capital loss coverage is effectively zero. To the extent that all losses have not been identified, capital loss coverage may be understated. However, recall that the bidder wishes for all identifiable losses to be incorporated in net worth coverage in the form of reserves established at acquisition.

[j] Legal expenses generated in the receivership analyses of Home and Northwest, used here as a proxy for FSLIC's liability under Community Holding's requested indemnification against litigation expenses.

Federal Home Loan Bank Board

1700 G Street, N.W
Washington, D.C 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

FROM: Carlos M. Fiol
Regional Director, AED

Lisa W. Scheckel LWS
Financial Analyst, AED

TO: Michael Spaid
Financial Analyst, MAD

DATE: September 7, 1988

SUBJECT: Bid Costings for
Home FS&LA
(FHLBB No. 5627)

We have completed our analysis of bids submitted for acquisition of Home FS&LA (FHLBB No. 5627) in Spencer, Iowa. Bids submitted by the following three bidders were included in the analysis:

- Community Holdings, Ltd. of Creston, Iowa.
- Farmers Trust and Savings Bank of Spencer, Iowa.
- Mehesan, Howe, Bovee Investors of Spencer, Iowa.

The terms of each proposal were clarified through conference call to the bidders. The cost of each proposal was then calculated and compared to the cost of liquidation for Home. The results of this comparison are presented below.

COST SUMMARY

	CASH BASIS	PRESENT VALUE
COST OF LIQUIDATION:		
Home FS&LA	$ 5,876,000	$ 9,484,000
COST OF BIDS (in Ascending Order of Present Value Cost):		
Community Holdings Plan II	$ 5,905,118	$ 5,803,787
Farmers Trust	8,379,071	$ 6,239,529
Mehesan, Howe, Bovee Inv.	10,152,482	7,200,134
Community Holdings Plan I	7,348,000	7,319,000

BID COSTING ASSUMPTIONS

The assumptions listed on this page were inherent in the bid costing process for all bids submitted. Analytical assumptions specific to each bid are noted in the bid summaries contained on the following pages. The footnotes contained in the bid summaries are an integral part of this analysis.

Major Assumptions:

- Financial data from the June 1988 Quarterly Thrift Report, updated to reflect major changes in financial position, were utilized.
- The volume of non-performing assets and their associated loss estimates were the same as those used in the liquidation analyses dated September 7, 1988.
- The June 1988 AED Base Rate Scenario was utilized, and all FSLIC financial assistance was discounted using a constant 10.35% Cost of Capital.
- Legal expenses obtained from the liquidation analyses of Home and Northwest have been added to the cost of each bid as a proxy measure of FSLIC liability for indemnity against litigation, a requirement in each of the bids submitted.
- In cases where a yield subsidy and/or capital loss coverage is requested for assets that will become covered assets following acquisition, the forecast for new loan defaults derived from the liquidation analyses of Home and Northwest was used as a proxy for the volume of these assets. Losses on new loan defaults were estimated by applying the loss rates on loans used in the liquidation analyses to the forecast volume of new loan defaults.

Home FS&LA
(FHLBB No. 5627)
Spencer, IA

Bidder: Community Holdings, Ltd.
Creston, Iowa

AED Analyst: Lisa Scheckel

MAD Analyst: Michael Spaid

I. FORM OF PROPOSED TRANSACTION

Community Holdings, Ltd. is a consortium of investors that proposes to establish "Newco" Holding Company with a total cash equity contribution of $1,650,000. Newco Holding Company will then acquire 100% of the voting common stock of the merged thrifts, following their supervisory conversion to a federally-chartered stock institution, in exchange for a cash infusion of $1,650,000.

II. FINANCIAL ASSISTANCE FROM FSLIC

Community Holdings requests that the FSLIC provide financial assistance according to one of the following two assistance plans:

A. Plan I:

The FSLIC would provide Community Holdings with a one-time cash infusion of $7.000 million, together with indemnification for any future claims, liabilities or losses which may occur as a result of the actions of Home prior to acquisition.

B. Plan II:

Plan II involves the following forms of FSLIC financial assistance:

1. Cash for Home's Net Worth Deficit, payable at acquisition. Net worth is to be calculated as RAP Net Worth at date of acquisition, adjusted for: 1) write-off of deferred losses, and 2) booking of additional reserves in the amount of $1.331 million.

2. Capital Loss Coverage, payable semi-annually for a period of 3 years, equal to 80% of losses incurred in excess of $4.500 million (Community Holding's estimate of total reserves at acquisition, including the additional $1.331 million in requested reserves).

Covered assets include all mortgage loans greater than $.400 million, all loans past due greater than 60 days, and all items identified as REO and REJ on the date of acquisition.

3. Yield Subsidy, payable semi-annually for a period of three years, equivalent to the Six Month TBill yield plus 100 BP. Yield subsidy is to be provided on the net book value of covered assets listed in paragraph II.B.2 above, as well as on the gross book value of Mortgage-backed Securities and other investment securities.

III. FINANCIAL ASSISTANCE FROM THE BIDDER

A. Initial capital infusion in the amount of $1.650 million. Community Holdings requests that a capital maintenance agreement be executed at acquisition such that their liability for maintaining capital include a "Regulatory Capital Trigger Level" of no more than 2%.

B. There is no provision for tax benefit sharing in the Community Holdings bid for Home FS&LA.

IV. COST OF THE COMMUNITY HOLDINGS PROPOSALS

	Assistance	Cash Basis	Present Value
	PLAN I:		
1.	Lump Sum Cash	$ 7,000,000	$ 7,000,000
2.	Legal Expenses[d]	348,000	319,000
	Total Bid Cost	**$ 7,348,000**	**$ 7,319,000**
	PLAN II:		
1.	Cash Net Worth Infusion[a]	$ 4,839,000	$ 4,839,000
2.	Capital Loss Coverage[b]	282,400	250,068
5.	Yield Subsidy[c]	435,718	395,719
6.	Legal Expense[d]	348,000	319,000
	Total Bid Cost	**$ 5,905,118**	**$ 5,803,787**

The footnotes accompanying the Community Holdings cost summary begin on the following page.

V. ESTIMATED FIRST YEAR CASH OUTLAYS (000s)

	AT ACQUISITION	SEMI-ANNUAL PERIOD 1	SEMI-ANNUAL PERIOD 2
PLAN I:			
Lump-sum Infusion	$ 7,000	$ 0	$ 0
Legal Expenses	0	87	87
Total Outlays	$ 7,000	$ 87	$ 87
Cumulative Outlays	$ 7,000	$ 7,087	$ 7,174
PLAN II:			
Cash for Deficit	$ 4,839	$ 0	$ 0
Capital Losses	0	71	71
Yield Subsidy	0	193	119
Legal Expenses	0	87	87
Total Outlays	$ 4,839	$ 351	$ 277
Cumulative Outlay	$ 4,839	$ 5,190	$ 5,467

* Community Holding Ltd.'s estimate of Home's net worth deficit at acquisition is $5.000 million. AED's estimate is $4.839 million. The difference of $.161 million amounts to Community Holding's estimate of losses that will be incurred from now until acquisition. AED's estimate of Home's net worth at acquisition was derived as follows (in 000s):

RAP Net Worth at 6/30/88	$ (2,444)
Reserves Booked at Acquisition	(1,331)[1]
Write-off of Deferred Losses	(1,064)
Adjusted Deficit	$ (4,839)

[1] The volume of additional reserves to be booked at acquisition, per the bid instructions. $1.034 million of this amount has been reserved by Home since the June quarterly report was issued.

[b] Amount equal to 80% of unreserved losses on disposition of capital assets, using AED's estimate of reserves at acquisition, or $1.340 million. The bidder's estimate of reserves at acquisition is $4.500 million, but is based on old due diligence findings. Since the bidder completed its due diligence, Home has written down the gross book value of REO by the amount of reserves that existed at 3/31/88 (REO reserves at 3/31/88 were $2.600 million).

[c] The yield subsidy rate was derived using the forecast for the Six Month TBill yield contained in the AED June 1988 Base Rate Scenario, plus 100 points. Sales of covered assets other than investment securities are assumed to take place ratably over two years following acquisition. This sales rate was deemed appropriate in view of the low yield subsidy rate, which provides minimal incentive to retain covered assets post-acquisition. MBS and other investment securities are assumed to be held till maturity.

[d] Legal expenses generated in the receivership analyses of Home FS&LA, used here as a proxy for FSLIC's liability under Community Holding's requested indemnification against litigation expenses.

Home FS&LA
(FHLBB No. 5627)
Spencer, IA

Bidder: Farmers Trust
Spencer, Iowa

AED Analyst: Lisa Scheckel

MAD Analyst: Michael Spaid

I. FORM OF PROPOSED ACQUISITION

Farmers Trust and Savings Bank is a FDIC-insured state bank with approximately $50 million in assets and equity capital of 7%. Farmers proposes to convert to a federal stock savings and loan and merge with Home FS&LA following Home's supervisory conversion to a federal stock association.

II. FINANCIAL ASSISTANCE FROM FSLIC

Farmers Trust requests the following forms of FSLIC financial assistance:

A. Cash or a Note for Net Worth Coverage is requested, in an amount equal to GAAP net worth at acquisition with the following adjustments: 1) write-off of deferred loan losses, 2) FSLIC assumption of 70% of the mark-to-market losses identified on Home's investment securities, 3) the addition of $.698 million in specific reserves, and 4) reversal of loss reserves for loans and REO.

At the FSLIC's discretion, net worth coverage may be in the form of cash or a note. A note would have a specified maturity of five years, with principal due in two level payments at the end of years 4 and 5, and interest paid quarterly at the floating rate of the Six Month TBill yield plus 100 BP.

B. Capital Loss Coverage, payable quarterly for 5 years, for 100% of losses incurred on all assets up to the amount of reserves established at acquisition. The FSLIC is to pay 90% of all unreserved additional losses incurred on the disposition of specific problem loans, REO and REJ, and 80% of all unreserved additional losses incurred on certain past-due loans and real estate sold on contract.

C. **Yield Subsidy**, adjusted and payable quarterly for a period of three years, sufficient to guarantee a yield on covered assets equivalent to the Six Month TBill rate plus: 350 BP in year 1, 300 BP in year 2, and 250 BP in year 3. The yield subsidy applies to the gross book value of specific problem loans totaling $2.237 million and all REO and REJ on Home's books at acquisition.

III. FINANCIAL ASSISTANCE FROM THE BIDDER

A. The FSLIC is to receive 90% of gains realized on the disposition of specific problem loans, REO and REJ, together with 80% of the gains realized on the disposition of certain past-due loans and real estate sold on contract.

B. Farmers will refund 50% of all NOL tax benefits to the FSLIC over the life of the assistance agreement (5 years).

IV. COST OF THE FARMERS TRUST PROPOSAL

Assistance	**Cash Basis**	**Present Value**
CASH FOR NET WORTH OPTION:		
1. Cash for Net Worth[e]	$ 3,520,000	$ 3,520,000
2. Capital Loss Coverage[f]	1,697,800	1,311,517
3. Yield Subsidy[g]	1,376,671	1,204,903
4. Legal Expenses[h]	348,000	319,000
Total Bid Cost	$ 6,942,471	$ 6,355,420
NOTE FOR NET WORTH OPTION:		
1. Net Worth Note Principal[e]	$ 3,520,000	$ 2,262,526
2. Net Worth Note Interest[g]	1,436,600	1,141,583
3. Capital Loss Coverage[f]	1,697,800	1,311,517
4. Yield Subsidy[g]	1,376,671	1,204,903
5. Legal Expenses[h]	348,000	319,000
Total Bid Cost	$ 8,379,071	$ 6,239,529

The footnotes accompanying the Farmers Trust bid cost summary begin on the following page.

V. ESTIMATED FIRST YEAR CASH OUTLAYS (000s)

	AT ACQUISITION	QTR 1	QTR 2	QTR 3	QTR 4
CASH OPTION:					
Cash for Deficit	$ 3,520	$ 0	$ 0	$ 0	$ 0
Capital Losses[1]	0	0	0	0	0
Yield Subsidy	0	137	140	142	143
Legal Expenses	0	29	29	29	29
Total Outlays	$ 3,520	$ 166	$ 169	$ 171	$ 172
Cumulative Outlay	$ 3,520	$ 3,686	$ 3,855	$ 4,026	$ 4,198
NOTE OPTION:					
Note Principal	$ 0	$ 0	$ 0	$ 0	$ 0
Note Interest	0	75	77	79	79
Capital Losses[1]	0	0	0	0	0
Yield Subsidy	0	137	140	142	143
Legal Expenses	0	29	29	29	29
Total Outlays	$ 0	$ 241	$ 246	$ 250	$ 251
Cumulative Outlay	$ 0	$ 241	$ 487	$ 737	$ 988

Footnotes to Accompany Farmers Trust Bid Cost Summary:

- The amount of deficit net worth assistance requested by Farmers Trust was calculated in the following manner [all data in (000s)]:

RAP Net Worth at 6/30/88	$ (2,444)
Reserves Booked 6/30/88 to 8/10/88	(1,034)[1]
Reserves Requested by Farmers	(698)
Write-off of Deferred Losses	(1,064)
70% of M-T-M on Investments	(21)[2]
Reverse Total Reserves	1,741
Total Adjusted Deficit	$ (3,520)

[1] Per FHLB Des Moines.

[2] Mark-to-market on investment securities was calculated using actual District 8 (Des Moines) average rates on investments at 6/30/88, forecast to increase in tandem with the national average rates on securities in the AED June 1988 Base Rate Scenario. Figure shown is 70% of total mark-to-market losses on investment securities.

[e] (cont'd.) Farmers Trust estimated that the deficit coverage would equal approximately $1.240 million. The discrepancy between AED's estimate and that of the bidder arises primarily because Home has written down REO and reversed REO reserves in the amount of $2.500 million since the bidder conducted due diligence. The $2.500 million in reserves were deducted from Farmer's estimate of net worth coverage.

[f] Capital loss coverage was calculated as follows:

- 100% of reserves established on specific problem loans less 90% of the gains estimated on disposition of problem loans, plus:
- 100% of reserves established on REO and REJ plus 90% of estimated additional unreserved losses on REO and REJ.

The gain sharing calculation is necessary because the level of reserves for problem loans at acquisition exceeds AED's estimate of total losses that will be incurred at disposition of these loans. FSLIC's gain sharing will offset capital loss payments by $.270 million since our estimate of loan losses is lower than loan reserves by $.300 million (90% of $.300 million will be deducted from capital loss coverage).

[g] The yield subsidy and note interest rates were was derived using the forecast for the Six Month TBill yield in the June 1988 AED Base Rate Scenario, plus the appropriate BP spread. Covered assets are assumed to be sold ratably over years two and three following acquisition. This sales rate was deemed appropriate since the yield subsidy is extremely high and of three year's duration, thus providing considerable incentive to retain covered assets post-acquisition.

[h] Legal expenses generated in the receivership analysis of Home, used here as a proxy for FSLIC's liability under Farmers requested indemnification against litigation expenses.

[i] Since the sales rate assumes no assets are sold in the first year following acquisition, capital loss coverage is zero during this period. See footnote g for sales rate rationale.

Home FS&LA
(FHLBB No. 5627)
Spencer, IA

Bidder: Mehesan, Howe, Bovee
Spencer, Iowa

AED Analyst: Lisa Scheckel

MAD Analyst: Michael Spaid

I. FORM OF PROPOSED ACQUISITION

Mehesan, Howe, Bovee Investors (MHBI) is an investor group proposing to form a holding company which, following Home's supervisory conversion to a federal stock association, will acquire all of Home's outstanding shares of common stock in exchange for a capital infusion of $1.700 million in cash.

II. FINANCIAL ASSISTANCE FROM FSLIC

MHBI requests the following forms of FSLIC financial assistance:

A. **A Note for Negative Net Worth Coverage** is requested, in an amount equal to RAP net worth at acquisition with the following adjustments: 1) write-off of deferred losses, 2) reversal of general reserves totaling $.089 million, and 3) the net mark-to-market adjustment (loss) on loans and core deposits.

The note is to have a ten year term, with principal paid in five equal annual installments beginning at the end of the sixth year and interest paid quarterly at a fixed rate of 9%.

B. **FSLIC Purchase of Preferred Stock** in the amount of $1.700 million is requested. The stock will be non-voting and will bear an annual fixed dividend rate of 7%, with dividends accumulating should a dividend not be declared. Stock will be called at par value (together with any accumulated dividends) in five equal annual installments beginning at the end of the sixth year following acquisition.

C. **Capital Loss Coverage**, payable quarterly for 5 years, for 85% of (unreserved additional) losses incurred on the disposition of covered assets. MHBI will absorb 15% of all unreserved losses on covered assets up to a maximum of $.500 million.

Covered assets will include: loans contractually delinquent 60 days or more, all REO/REJ, investment in service corporations, REI, loans to facilitate, troubled debt restructurings, and any asset that becomes a classified asset within five years of acquisition.

D. **Yield Subsidy**, adjusted and payable quarterly for a period of five years, sufficient to guarantee a yield on covered assets equivalent to the Six Month TBill rate plus 200 BP. The yield subsidy applies to the net book value of covered assets only.

III. FINANCIAL ASSISTANCE FROM THE BIDDER

A. MHBI will infuse $1.700 million in capital into the new thrift.

B. MHBI will absorb 15% of all unreserved losses incurred on the disposition of covered assets, up to a maximum of $.500 million.

C. MHBI will credit 20% of all federal income tax benefits resulting from the acquisition to the FSLIC.

IV. COST OF THE MHBI PROPOSAL

	Assistance	Cash Basis	Present Value
1.	Net Worth Note Principal[j]	$ 5,122,000	$ 2,352,148
2.	Net Worth Note Interest[k]	3,687,840	2,500,132
3.	Preferred Stock Purchase	1,700,000	1,700,000
4.	Stock Call[l]	(1,700,000)	(649,956)
5.	Stock Dividends[l]	(952,000)	(593,143)
6.	Capital Loss Coverage[m]	796,810	610,587
7.	Yield Subsidy[k]	1,149,832	961,366
8.	Legal Expenses[n]	348,000	319,000
	Total Bid Cost	$ 10,152,482	$ 7,200,134

The footnotes accompanying the Farmers Trust bid cost summary begin on the following page.

V. ESTIMATED FIRST YEAR CASH OUTLAYS (000s)

	AT ACQUISITION	QTR 1	QTR 2	QTR 3	QTR 4
Note Principal	$ 0	$ 0	$ 0	$ 0	$ 0
Note Interest	0	115	115	115	115
Stock Purchase	1,700	0	0	0	0
Stock Dividends[1]	0	(28)	(28)	(28)	(28)
Stock Call	0	0	0	0	0
Capital Losses	0	31	31	31	31
Yield Subsidy	0	93	92	90	87
Legal Expenses	0	17	17	17	17
Total Outlay	$ 1,700	$ 228	$ 227	$ 225	$ 222
Cumulative Outlay	$ 1,700	$ 1,928	$ 2,155	$ 2,380	$ 2,602

Footnotes to Accompany MHBI Bid Cost Summary:

[j] The amount of deficit net worth assistance requested by MHBI was calculated in the following manner (in 000s):

RAP Net Worth at 6/30/88	$ (2,444)
Reserves Booked 6/30/88 to 8/10/88	(1,034)[1]
Write-off of Deferred Losses	(1,064)
Reverse General Reserves	89
Mark-to-market	
on loans	(930)[2]
on core deposits	261 [2]
Total Adjusted Deficit	$ (5,122)

[1] Per FHLB Des Moines.

[2] Mark-to-market was calculated using actual District 8 (Des Moines) Mortgage Portfolio and Deposit Yields at 6/30/88, forecast to increase in tandem with the national average rates on securities in the AED June 1988 Base Rate Scenario.

[k] The yield subsidy rate was derived using the forecast for the Six Month TBill yield in the June 1988 AED Base Rate Scenario, plus 200 BP. The note interest rate is fixed at 9%.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

FROM: Carlos M. Fiol
Regional Director, AED

Lisa Scheckel LWS
Financial Analyst, AED

DATE: September 7, 1988

TO: Michael Spaid
Financial Analyst, MAD

SUBJECT: **Liquidation Costing of Northwest FS&LA** in Spencer, IA
FHLBB No. 03754

We have revised the liquidation costing of Northwest FS&LA in Spencer, IA (dated June 6, 1988) to reflect recent changes in Northwest's financial position. This memo sets forth the results of the revised liquidation analysis and a summary of mark-to-market adjustments for Northwest's assets and liabilities.

I. LIQUIDATION COSTING

For purposes of the analysis, information concerning asset quality and associated loss estimates was obtained from supervisory personnel at the FHLB of Des Moines.

The following major assumptions were used in the liquidation analysis:

- The June 1988 quarterly thrift financial report and the June 1988 AED Base Interest Rate Scenario were utilized. All cashflows were discounted using a constant 10.35% Cost of Capital.

- Total non-performing mortgage loans of $30.537 million have principal reserves of $4.047 million at 6/30/88. Since that date, an additional $.592 million in additional reserves have been booked. Based on information obtained from the FHLB of Des Moines, $7.477 million in additional unreserved losses are anticipated, all of which is expected to be reserved by Northwest prior to 9/30/88.

- Non-performing non-mortgage loans of $.242 million at 6/30/88 are fully reserved.

- REO of $12.424 million at 6/30/88 has reserves of $2.067 million. Additional unreserved losses of $1.923 million are expected, based upon information obtained from the FHLB of Des Moines.

- Cash and Investments of $10.066 million at 6/30/88 are currently unreserved. No additional unreserved losses are expected, per the FHLB of Des Moines.

- Fixed Assets of $1.168 million are expected to have losses at disposition of $.337 million based upon our standard assumptions regarding liquidation value of fixed assets.

- Investment in Service Corporations of $7.301 million is expected to incur losses over the course of receivership in the amount of $3.717 million, based upon information received from the FHLB of Des Moines regarding the market value of service corporation assets.

- Other Assets ($5.069 million) are composed primarily of FHLB Stock ($3.436 million), Accrued Interest Receivable ($.886 million), FHLMC Stock ($.180 million), and several miscellaneous prepaid expenses ($.567 million). Losses are anticipated to be $.658 million and are composed primarily of Accrued Interest Receivable.

- Northwest currently has $34.682 million in outstanding FHLB Advances. These advances are assumed repaid at maturity (within one year following receivership). Per the FHLB of Des Moines, prepayment penalties on Northwest's advances are $19,311 as of Sept. 7, 1988.

- Northwest has $13.090 million in Net Operating Loss (NOL) carryforwards, expiring at various intervals from 1992 through 2003.

Additional assumptions and related financial information are contained in the liquidation summary and MAD Summary Report on the following pages.

COST OF LIQUIDATION
NORTHWEST FS&LA
SPENCER, IA
FHLBB NO. 03754

LIQUIDATION ASSUMPTIONS:

1.	Insured Savings	$ 145,175,000
2.	Uninsured Savings	2,963,000
3.	Receivership Life	3 years
5.	Estimated Total Assets at 6/30/88	$ 150,858,000
6.	Estimated Regulatory Capital 6/30/88	(32,887,000)*
7.	FSLIC Opportunity Cost:	
	Year 1	10.35%
	Year 2	10.35%
	Year 3	10.35%

COST OF LIQUIDATION	CASH BASIS	PRESENT VALUE
Payout to Insured Savers	$ 145,175,000	$ 145,175,000
Insurance Payment Cost	404,000	404,000
Total Initial Cash Outlay	145,579,000	145,579,000
Recovery from Receivership	(89,788,000)	(75,697,000)
Total Cost to FSLIC	$ 55,791,000	$ 69,882,000

* The net worth calculations include $1.836 million in intangible assets (deferred losses), and exclude $.416 million in tangible assets (unearned discounts and deferred loan fees). After making these adjustments to Net Worth, estimated Tangible Regulatory Capital is ($34.307 million).

Northwest FS&LA Liquidation Analysis 9/7/88 - pp. 4

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              JUN88QTR / JUN88C / UP-TO-DATE LOSSES / 10.25% COST OF K
                  NORTHWEST FS AND LA OF SPENCER IN SPENCER, IA
                               MAD SUMMARY REPORT
                               08/12/88 AT 11:07

==========================================================================================
                              RECONCILIATION SUMMARY
                                                                                   $ TOTAL
                                                                                   -------
INITIAL NET WORTH                                                                 (32,887)
  (Goodwill)                                                                             0
  (Deferred Losses)                                                                (1,836)

TANGIBLE NET WORTH                                                                (34,723)
  Contra Assets - Reserves and Unearned Discounts                                    6,772
  (Total Losses)                                                                  (23,533)
  Interest Income                                                                   10,050
  Other Income                                                                     (4,783)
  (Operating Expense)                                                              (9,436)
  (Interest Expense)                                                                 (826)
  Secured Creditor Difference                                                            0
  Unsecured Creditor Difference                                                      1,120
  (Insurance Cost Payment)                                                           (404)
  (Fixed Asset Depreciation)                                                          (36)
  (Disposition Cost)                                                                     0
  (Note Principal)                                                                       0

CASH BASIS LIQUIDATION COST                                                         55,789

==========================================================================================
                                   LOSS SUMMARY

CAPITAL LOSSES:                                   MARKET LOSSES:
  Nonperforming Mortgages          [illegible]      Sales of Mortgages                 2,094
  Nonperforming Nonmortgages               242      Sales of Nonmortgage Loans           107
  Original REO                           3,924      Sales of Cash and Investments      (150)
  REO From New Defaults                    498                                   -----------
  FSH                                        0    TOTAL MARKET LOSSES                  2,051
  Service Corps                          3,717
  New Asset1                                 0    OTHER LOSSES                           985
                                   -----------
TOTAL CAPITAL LOSSES                    20,497
                                                  TOTAL LOSSES                        23,533

==========================================================================================
                          BREAKDOWN OF NONPERFORMING LOANS

MORTGAGES:
  Adjustable Rate                  [illegible]
  1-4 Family Residential                 4,531    NONMORTGAGES:
  Multifamily                      [illegible]      Consumer Loans                       242
  Second Mortgages                           0      Commercial Loans                       0
                                   -----------                                   -----------
  Nonperf. Mortgage Loans               30,537     Nonperf. Nonmortgage Loans            242
    (Less Writedowns)                        0       (Less Writedowns)                     0
                                   -----------                                   -----------
TOTAL NONPERF. MORTGAGE LOANS           30,537                                           242
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II. MARK-TO-MARKET OF ASSETS AND LIABILITIES

A mark-to-market analysis was conducted for Northwest's assets and liabilities under the following assumptions:

- The June 1988 quarterly thrift financial report and the June 1988 AED Base Interest Rate Scenario were utilized.
- Market rates for the Cost of Deposits (COD) and average Mortgage Portfolio Yields (MPY) were derived by taking the actual COD and MPY for District 8 (Des Moines) and forecasting them to increase in tandem with the national average forecasts for these yields in the June 1988 AED Base Rate Scenario.

The asset and liability account balance adjustments that resulted from this analysis are provided as follows:

NORTHWEST FS&LA
MARKET LOSSES (GAINS)[b]
(000s)

Assets:		Liabilities:	
Medium-term Cash	$ 7	Medium-term Deposits	$ (809)
Long-term Cash	(185)	Long-term Deposits	(98)
		Long-term Advances	0
Mortgages	1,365	Long-term Other Borrowing	0
Non-mortgage Loans	178	Non-qualifying Debenture	0
		Qualifying Debenture	0
Totals	$ 1,365		$ (907)

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[b] Mark-to-market adjustments are those that would occur at-receivership or at-acquisition. The mark-to-market adjustments contained in the MAD Summary Report on the previous page are taken prior to disposition (assets are disposed of ratably over a three year period). Market losses contained in the MAD Summary Report are therefore higher since assets are marked-to-market using higher future market yields.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

FROM: Carlos M. Fiol
Regional Director, AED

Lisa Scheckel LWS
Financial Analyst, AED

TO: Michael Spaid
Financial Analyst, MAD

DATE: September 7, 1988

SUBJECT: **Liquidation Costing of Home FS&LA in Spencer, IA**
FHLBB No. 05627

We have revised the liquidation costing of Home FS&LA in Spencer, IA (dated June 6, 1988) to reflect recent changes in Home's financial position, together with current estimates of non-performing assets and their associated losses. This memo sets forth the results of the revised liquidation analysis and a summary of mark-to-market adjustments for Home's assets and liabilities.

I. LIQUIDATION COSTING

For purposes of the analysis, information concerning asset quality and loss estimates was obtained from supervisory personnel at the FHLB of Des Moines, and from the April 1988 exam report (concluded May 23, 1988).

The following major assumptions were used in the liquidation analysis:

- The June 1988 quarterly thrift financial report and the June 1988 AED Base Interest Rate scenario were utilized. All cashflows were discounted using a constant 10.35% Cost of Capital.
- Total non-performing mortgage loans of $2.242 million had no principal reserves established as of 6/30/88. Since that date, $1.024 million in reserves have been booked, and $.149 million in additional unreserved losses are expected, as indicated by information obtained from the April 1988 FHLB exam.
- Non-performing non-mortgage loans of $.020 million at 6/30/88 have principal reserves of $.019 million, with no additional unreserved losses expected based upon information in the April 1988 FHLB exam.
- Fixed Assets of $.429 million are expected to have losses at disposition of $.130 million based upon our standard assumptions regarding liquidation value of fixed assets.

- Cash and Investments of $18.123 million at 6/30/88 is currently unreserved, with no unreserved losses expected, per the FHLB of Des Moines.

- REO of $2.729 million at 6/30/88 is currently unreserved, with $.501 million in additional unreserved losses expected, based upon information obtained from the FHLB of Des Moines.*

- Investment in Service Corporations of $.013 million is assumed to incur losses over the course of receivership in the amount of $.009 million, based upon information received from the FHLB of Des Moines.

- Other Assets ($.668 million) are composed primarily of FHLB Stock ($.373 million), accrued interest receivable ($.220 million), FHLMC Stock ($.036 million), FIT Stock (.019 million) and miscellaneous prepaid expenses ($.020 million). Losses are anticipated to be $.091 million, composed primarily of accrued interest receivable.

- Home currently has $.500 million in outstanding FHLB Advances. These advances are assumed repaid at maturity (within one year following receivership). Per the FHLB of Des Moines, Home's advances are not pre-payable.

- Home has $2.647 million in Net Operating Loss (NOL) carryforwards. NOLs by date of expiration are as follows:

Amount	Expiration September 30th
$ 220,000	1992
100	1993
2,352,000	1994
75,000	2003 (estimated)
$ 2,647,000	

Additional assumptions and related financial information are contained in the liquidation summary and MAD Summary Report on the following pages.

* Since the date of our last liquidation costing, Home has written down the gross book value of REO by the amount of reserves existing at 3/31/88, or $2.586 million. Therefore, REO reserves are currently zero and Gross REO on the books at 3/31/88 has been written down to its net realizable value.

COST OF LIQUIDATION
HOME FS&LA
SPENCER, IA
FHLBB NO. 05627

LIQUIDATION ASSUMPTIONS:

1.	**Insured Savings**	$ 52,277,000
2.	**Uninsured Savings**	1,067,000
3.	**Receivership Life**	3 years
5.	**Estimated Total Assets at 6/30/88**	$ 51,815,000
6.	**Estimated Regulatory Capital 6/30/88**	(2,444,000)[b]
7.	FSLIC Opportunity Cost:	

Year 1	10.35%
Year 2	10.35%
Year 3	10.35%

COST OF LIQUIDATION	CASH BASIS	PRESENT VALUE
Payout to Insured Savers	$ 52,277,000	$ 52,277,000
Insurance Payment Cost	198,000	198,000
Total Initial Cash Outlay	52,475,000	52,475,000
Recovery from Receivership	(46,599,000)	(42,991,000)
Total Cost to FSLIC	$ 5,876,000	$ 9,484,000

[b] The net worth calculations include $1.064 million in intangible assets (deferred losses), and exclude $.084 million in tangible assets (unearned discounts and deferred loan fees). After making these adjustments to Net Worth, estimated Tangible Regulatory Capital is ($3.424 million).

Home FS&LA Liquidation Costing 9/7/88 - pp. 4

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                                  JUN 88 QTR / JUN88C / 10.35% COST OF K
                                 HOME FS AND  LA OF SPENCER IN SPENCER, IA
                                           MAD SUMMARY REPORT
                                          08/10/88 AT 13:22

:::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::
                                        RECONCILIATION SUMMARY
                                                                                                   $ TOTAL
                                                                                                   -------
INITIAL NET WORTH                                                                                  (2,444)
  (Goodwill)                                                                                             0
  (Deferred Losses)                                                                                (1,064)

TANGIBLE NET WORTH                                                                                 (3,508)
  Contra Assets - Reserves and Unearned Discounts                                                       93
  (Total Losses)                                                                                   (3,501)
  Interest Income                                                                                    3,055
  Other Income                                                                                           1
  (Operating Expense)                                                                              (1,913)
  (Interest Expense)                                                                                   (6)
  Secured Creditor Difference                                                                            0
  Unsecured Creditor Difference                                                                        115
  (Insurance Cost Payment)                                                                           (198)
  (Fixed Asset Depreciation)                                                                          (13)
  (Disposition Cost)                                                                                     0
  (Note Principal)                                                                                       0

CASH BASIS LIQUIDATION COST                                                                          5,877

:::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::
                                             LOSS SUMMARY

CAPITAL LOSSES:                                            MARKET LOSSES:
  Nonperforming Mortgages                       1,173        Sales of Mortgages                      1,314
  Nonperforming Nonmortgages                       19        Sales of Nonmortgage Loans                  7
  Original REO                                    501        Sales of Cash and Investments              74
  REO From New Defaults                           188                                          -----------
  REH                                               0      TOTAL MARKET LOSSES                       1,395
  Service Corps                                     9
  New Asset1                                        0      OTHER LOSSES                                217
                                          -----------
TOTAL CAPITAL LOSSES                            1,890
                                                           TOTAL LOSSES                              3,501

:::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::::
                                    BREAKDOWN OF NONPERFORMING LOANS

MORTGAGES:
  Adjustable Rate                               1,009
  1-4 Family Residential                          785      NONMORTGAGES:
  Multifamily                                     448        Consumer Loans                             20
  Second Mortgages                                  0        Commercial Loans                            0
                                          -----------                                          -----------
 Nonperf. Mortgage Loans                        2,242       Nonperf. Nonmortgage Loans                  20
   (Less Writedown)                                 0         (Less Writedown)                           0
                                          -----------                                          -----------
TOTAL NONPERF. MORTGAGE LOANS                   2,242      TOTAL NONPERF. NONMORTGAGE LOANS             20
```

II. MARK-TO-MARKET OF ASSETS AND LIABILITIES

A mark-to-market analysis was conducted for Home's assets and liabilities under the following assumptions:

- The June 1988 quarterly thrift financial report and the June 1988 AED Base Interest Rate Scenario were utilized.
- Market rates for the Cost of Deposits (COD) and average Mortgage Portfolio Yields (MPY) were derived by taking the actual COD and MPY for District 8 (Des Moines) and forecasting them to increase in tandem with the national average forecasts for these yields in the June 1988 AED Base Rate Scenario.

The asset and liability account balance adjustments that resulted from this analysis are provided as follows:

HOME FS&LA
MARKET LOSSES (GAINS)[c]
(000s)

Assets:		Liabilities:	
Medium-term Cash	$ 12	Medium-term Deposits	$ (246)
Long-term Cash	18	Long-term Deposits	(15)
		Long-term Advances	0
Mortgages	904	Long-term Other Borrowing	0
Non-mortgage Loans	26	Non-qualifying Debenture	0
		Qualifying Debenture	0
Totals	$ 960		$ (261)

[c] Mark-to-market adjustments are those that would occur at-receivership or at-acquisition. The mark-to-market adjustments contained in the MAD Summary Report on the previous page are taken prior to disposition (assets are disposed of ratably over a three year period). Market losses contained in the MAD Summary Report are therefore higher since assets are marked-to-market using higher future market yields.

PELICAN HOMESTEAD

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

TO: Jack Reid
Director, AED

DATE: December 23, 1987

From: Michelle LeClair
Meg Hawley
Financial Analysts, AED

SUBJECT: Costing of Pelican Homesteads' Aquisition Proposal for Four Louisiana Institutions.

As requested, we have costed the aquisition proposal submitted by Pelican Homestead, #3584 for Gulf FS&LA, #8357, First Financial of LA, #4406, Firstbank FSB-Gonzales, #7518, and First FS & LA-Alexandria, #4631.

PROVISIONS

STRUCTURAL ISSUES

1. Pelican proposes to aquire the four institutions via a merger.

2. After the merger of all four institutions into Pelican, Pelican will close 13 of the 23 branches that are held by the aquired institutions.

3. The term of the agreement will be 10 years.

ACCOUNTING

1. Purchase Accounting will be used

2. Intangible assets that result from the application of push-down accounting will be amortized over 25 years in accordance with GAAP.

FSLIC ASSISTANCE

The FSLIC will contribute the following to Pelican at the time of the merger:

1. $28.9 million in cash.

2. A note for $260.1 million with the following provisions;

   a. Interest compounded quarterly at the Louisiana Cost of Funds.
   b. The note will have a 10 year maturity.
   c. Interest only will be paid for the first 7 years.
   d. In year 8, 25% of the principal will be repaid, in year 9, another 25%, and in year 10, the remainder will be paid off.

3. The FSLIC will grant an income subsidy on nonperforming assets at a rate of 2.5% for the first 5 years of the assistance agreement.

4. The FSLIC will forgive a $6.858 million debt incurred by Pelican in the Leader merger.

BIDDER ASSISTANCE

The FSLIC will receive the following: 1/

1. A percentage of the profits from the institution in accordance with the following sliding scale;

1988	1989	1990	1991	1992	UNTIL CONVERSION
0.0%	10.0%	20.0%	30.0%	40.0%	40.0%

Only 50% of the profits which are due to the FSLIC will be paid in cash. The remaining 50% will be retained by Pelican in their retained earnings account.

2. Pelican will convert to a stock association as soon as possible. Upon conversion, the FSLIC will receive non-voting stock or rights to 25% of the common stock of Pelican. The FSLIC may not sell these rights in blocks that represent more than 3%-5% of the company.

3. The FSLIC will receive 100% of the tax benefits realized by Pelican that are attributable to net operating losses (NOLs) of the aquired institutions.

4. The FSLIC will receive 50% of the net capital gains from the disposition of non-performing assets.

OTHER PROVISIONS

1. No tax expense will be incurred as a result of the merger.

2. The FSLIC will have the right to hire and fire the auditor for the consolidated institution with the advise and consent of Pelican's board of directors. The FSLIC will pay the auditor, and be reimbursed by Pelican via a reduction in the interest expense on the FSLIC note.

INDEMNIFICATIONS

1. The FSLIC will indemnify up to $11.4 million in undisclosed liabilities, claims, and litigation.

1/ None of the returns to the FSLIC have been included in the cost of the bid.

BID COSTING

Million
(In ~~Thousands~~)

	CASH	PV	$ CASH	$ PRESENT VALUE
1. CASH			28.9	28.9
2. FSLIC NOTE				
principal	260.1	125.97		
interest	159.6	113.8		
TOTAL COST OF NOTE			419.7	239.7
3. INCOME SUBSIDY			30.43	25.0
TOTAL COST TO FSLIC			479.0	293.6

SOUTHWEST SAVINGS

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

To: Jay Earle
Southwest Plan Coordinator

From: Carrie Wagner CW
Financial Analyst, AED

Date: May 17, 1988

Subject: Southwest
Package

Please find below the cost of liquidation and the acquisition costing for the subject package in the southwest plan. Note: a discount rate of 10% is applied to all FSLIC cash flows. This rate reflects the approximate rate on FICO bonds and thus represents a more realistic cost of capital to the FSLIC.

A rising interest rate and a flat interest rate scenario are provided:

RISING RATES:

PROVISION	$ PRESENT VALUE
Liquidation of the four associations	2,538,297,000
Acquisition proposal	2,115,288,000

FLAT RATES:

PROVISION	$ PRESENT VALUE
Liquidation of the four associations	2,502,664,000
Acquisition proposal	1,980,323,000

The package submitted on May 11 contains these and other scenarios. The other scenarios were provided mainly for reference purposes only.

cc: Tom Lykos
Jack Reid
Don Edwards

SOUTHWEST PACKAGE
ACQUISITION COSTING
SUMMARY

BASED ON DECEMBER QUARTERLY DATA

	$ CASH BASIS	$ PRESENT VALUE
I. RISING RATE	3,727,329,000	2,263,519,000
II. RISING RATE (10% cost of capital)	3,727,329,000	2,115,288,000
III. FLAT RATE (10% cost of capital)	3,521,024,000	1,980,323,000
RANGE:	$3.5 billion-$3.7 billion	$1.98 billion-$2.3 billion

SOUTHWEST PACKAGE
LIQUIDATION SUMMARY
BASED ON DECEMBER QUARTERLY DATA

	$ CASH BASIS	$ PRESENT VALUE
I. A. Without depositor preference: (Rising rates)		
Southwest	83,000,000	214,000,000
City	437,709,000	519,121,000
Lamar	983,694,000	1,154,665,000
Stockton	391,269,000	458,730,000
Briercroft	19,488,000	116,387,000
Total	1,915,160,000	2,462,903,000
I. A. With depositor preference: (Rising rates)		
Southwest	72,115,000	204,189,000
City	434,672,000	516,125,000
Lamar	971,555,000	1,142,734,000
Stockton	389,673,000	457,232,000
Briercroft	12,698,000	109,940,000
Total	1,880,983,000	2,430,220,000
II. With depositor preference: (Rising rates/10% cost of capital)		
Southwest	72,115,000	231,947,000
City	434,672,000	531,342,000
Lamar	971,555,000	1,175,615,000
Stockton	389,673,000	469,812,000
Briercroft	12,698,000	129,581,000
Total	1,880,983,000	2,538,297,000
III. With depositor preference: (Flat rates/10% cost of capital)		
Southwest	54,593,000	214,830,000
City	434,361,000	530,924,000
Lamar	964,748,000	1,168,974,000
Stockton	391,242,000	470,670,000
Briercroft	0	117,266,000
Total	1,844,944,000	2,502,664,000

Southwest Proposal
Southwest Plan
FHLBB No.'s 6119,6152,0218,5673
Proposal Costing

Proposal of Acquirer: Southwest Savings Association, Dallas, Texas
Date of Proposal: April 19, 1988

Analyst: Carrie F. Wagner/Michelle LeClair
Date of Costing: May 16, 1988

Terms:

1. Southwest Savings Association (SWA) plans to acquire Lamar, City, Stockton, and Briercroft through FSLIC assisted mergers.
2. The acquisition will be accounted for under the purchase method of accounting.

FSLIC Assistance:

1. FSLIC will provide assistance to restore the negative net worth of the acquired institutions to zero (negative net worth includes ABC, ICC's, deferred losses, existing goodwill less any reserves).[1] The assistance will consist of a ten year note with a yield equal to the Texas average cost of funds plus 40 basis points.
2. FSLIC will provide capital loss coverage on covered assets. Note: For costing purposes covered assets equal the nonperforming asset figures assumed in the liquidation costing i.e., nonperforming loans, REO, REH, investment in service corporation, certain fixed assets, uncollectible accrued interest, and any loan that becomes 90 days delinquent within two years after the date of acquisition. Loss coverage will be based on the historical book value of the asset. Gains off of the original book value will be shared-10% of first $25 million gain to the acquirer, increasing 2% per $25 million up to a cap of 20% total sharing of gains. FSLIC may call any covered asset for a cash payment equal to book value at any time, and the acquirer reserves the right at the end of the agreement for a mark to market on those assets that have not been liquidated (after reasonable efforts of disposal by the acquirer).
3. The FSLIC will cover the mark to market losses on Cash/Securities and 1-4 residential loans as follows: the mark to market will be placed into goodwill, the FSLIC will then cover the portion of the amortization of goodwill over time that pertains to the mark.
4. The FSLIC will provide a yield subsidy on the covered assets. The rate will be adjusted quarterly and for the first year will equal 275 basis points over the Texas average cost of funds applied to the historical book value of the covered assets (Note: the spread will decline to 250 basis points in year 2 and 3, 225 for year 4 and 5, and 200 thereafter).
5. SWA will create a series of preferred stock and the FSLIC will hold 900 shares (par value of $1.00). At the end of year ten, SWA will be appraised by an investment banker. The lesser of 90% of the value of the association at that time or $54 million will be paid to the FSLIC. For any value of the association beyond $60 million, FSLIC will receive 50% of such value in the form of warrants.

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[1] Exisiting goodwill on the acquirer's books in NOT included.

Forbearances:

1. SWA requests certain net worth maintenance, growth rates, liquidity, and direct investment forbearances, please refer to the proposal for further details.

Other:

1. FSLIC will retain all of the tax benefits resulting from the transaction.
2. The acquirer requests advances from the FHLB of Dallas on the same terms as the initial contribution (note), secured by the note.

Costing:

1. The costing utilizes December (1987) financial data and the December (1987) FSLIC interest rate scenario.
2. Covered assets are assumed to be sold evenly during the second through fifth year of the assistance agreement (same time frame as assumed in the liquidation costing).
3. Two scenarios are provided: flat interest rates and rising interest rates. The cost of capital used in the present value column reflects the approximate rate of FICO bonds (i.e. 10%).
4. Based on December statistics, the mark to market loss on the Cash/Securities and 1-4 residential loans is negligible and as such is not included in the costing.
5. Value received from the preferred stock or warrants will reduce the cost to the FSLIC. However, no value is assigned to these equity instruments as this costing represents a "worst case" cost to the FSLIC given the interest rate and asset valuation assumptions.
6. Provisions are costed as follows:

NONPERFORMING ASSET ASSUMPTIONS (BASED ON DECEMBER 1987 QUARTERLY DATA & FHLB DALLAS)

ASSOCIATION:	Lamar	City	Stockton	Briercroft
Nonperforming loans:	$292,000,000	$137,000,000	$152,000,000	$81,000,000
REO:	649,000,000	282,000,000	164,000,000	80,000,000
REH:	199,000,000	38,000,000	100,000,000	1,500,000
SERV CORP :	103,000,000	81,000,000	88,000,000	76,000,000
TOTAL:	$1,243,000,000	$538,000,000	$504,000,000	$238,500,000

TOTAL COVERED ASSETS: $2,627,500,000
(includes fixed assets)

LOSSES:

Nonperfroming loans:	$139,000,000	$74,000,000	$148,000,000	$11,500,000
REO:	289,000,000	36,000,000	84,000,000	12,000,000
REH:	83,000,000	35,000,000	46,000,000	0
SERV CORP:	42,000,000	49,000,000	9,000,000	8,500,000
TOTAL:	$553,000,000	$194,000,000	$287,000,000	$32,000,000

TOTAL CAPITAL LOSSES: $1,175,720
(includes losses on fixed and other assets)

FLAT RATES WITH 10% COST OF CAPITAL

PROVISION		$CASH BASIS	$PRESENT VALUE
Negative net worth calculation:			
RAP net worth	835,794,000		
Appraised Equity	822,000		
Deferred losses	457,000		
Goodwill	120,054,000		
Less reserves	(387,445,000)		
Total	569,682,000		
1. 10 YEAR NOTE			
Principal		569,682,000	219,637,000
Interest		450,050,000	290,136,000
TOTAL NET WORTH PROVISION		1,019,732,000	509,773,000
2. CAPITAL LOSS COVERAGE[3]			
CASH		107,600,000	97,985,000
NOTE			
Principal		1,068,120,000	411,807,000
Interest		563,270,000	307,345,000
TOTAL CAPITAL LOSS		1,738,990,000	817,137,000
3. YIELD SUBSIDY		762,302,000	653,413,000
TOTAL COST TO THE FSLIC		3,521,024,000	1,980,323,000

NOTE: The cost to FSLIC does not include any benefit attributable to warrants received in this transaction.

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[3] Losses are based on the historic book value less all indicated losses cited in the liquidation costings. Losses are covered with notes rather than cash (except for fixed and other assets), with the same yield and terms as the net worth note.

RISING RATES WITH 10% COST OF CAPITAL

PROVISION		$CASH BASIS	$PRESENT VALUE
Negative net worth calculation:			
RAP net worth	835,794,000		
Appraised Equity	822,000		
Deferred losses	457,000		
Goodwill	120,054,000		
Less reserves	(387,445,000)		
Total	569,682,000		
1. 10 YEAR NOTE			
Principal		569,682,000	219,637,000
Interest		510,178,000	327,347,000
TOTAL NET WORTH PROVISION		1,079,860,000	546,984,000
2. CAPITAL LOSS COVERAGE[2]			
CASH		107,600,000	97,985,000
NOTE			
Principal		1,068,120,000	411,807,000
Interest		644,904,000	351,802,000
TOTAL CAPITAL LOSS		1,820,624,000	861,594,000
3. YIELD SUBSIDY		826,845,000	706,710,000
TOTAL COST TO THE FSLIC		3,727,329,000	2,115,288,000

1175720

NOTE: The cost to FSLIC does not include any benefit attributable to warrants received in this transaction.

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[2] Losses are based on the historic book value less all indicated losses cited in the liquidation costings. Losses are covered with notes rather than cash (except for fixed and other assets), with the same yield and terms as the net worth note.

SUNBELT

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

To: Tom Lykos
Director, Southwest Plan

Date: August 18, 1988

From: Margaret Havley
Sandra Duvall
Financial Analysts, AED

Subject: Bid Costing and Liquidation Analyses for the Pine Package

We have completed a liquidation analysis and bid costing for the following eight associations in the Southwest Plan:

Federated S&L	FHLBB #1539
First City SA	FHLBB #7575
Independent American S&LA	FHLBB #8413
Multibanc SA	FHLBB #5075
Summit SA	FHLBB #7292
Sunbelt SA	FHLBB #5898
Texana S&LA	FHLBB #7340
Western Federal S&L	FHLBB #8335

SUMMARY OF RESULTS

RISING INTEREST RATES

	CASH	PRESENT VALUE
BID COST	$11,230,249,500	$ 5,813,456,100
LEGAL EXPENSES[1]	190,723,000	148,892,000
LIQUIDATION COST	5,811,854,000	6,391,912,000

FLAT INTEREST RATES

	CASH	PRESENT VALUE
BID COST	$10,977,521,110	$ 5,810,051,980
LEGAL EXPENSES[1]	$ 190,723,000	$ 148,892,000
LIQUIDATION COST	$ 5,809,847,000	$ 6,387,779,000

[1] Legal expenses are not included in the bid cost.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

To: Tom Lykos
Director, Southwest Plan

Date: August 18, 1988

From: Margaret Hawley
Sandra Duvall
Financial Analysts, AED

Subject: Bid Costing of Pine Group

The following is a bid costing of the Pine Group using the assumptions suggested by Stuart Root, Executive Director, FSLIC at the FSLIC staff meeting on August 7, 1988.

INSTITUTIONS TO BE ACQUIRED:

Sunbelt SA of Texas, Dallas, Texas, FHLBB No. 5898
Multibanc SA, Dallas, Texas, FHLBB No. 5075
Federated S&LA, San Antonio, Texas, FHLBB No.1539
Texana S&LA, Texarkana, Texas, FHLBB No. 7340
Western FS&LA, Dallas, Texas, FHLBB No. 8335
Independent American S&LA, Irving, Texas, FHLBB No. 8413
First City SA, Irving, Texas, FHLBB No. 7575
Summit SA, Dallas, Texas, FHLBB No. 7292

ACQUIRER CONTRIBUTION: The acquirer has not been identified.

FSLIC ASSISTANCE:

1. The FSLIC will issue a note in an amount that equals the difference between liabilities assumed and tangible assets acquired, after reversing all general and specific loans reserves. The term of the note will be 10 years with a balloon payment at the end of the tenth year. Interest will be paid quarterly at a rate that equals the Texas cost of funds plus 50 basis points.

2. The FSLIC will provide a yield subsidy on the gross book value of covered assets. Covered assets will include all assets except marketable securities: 1-4 family residential loans which are performing 2 years after the date of acquisition; furniture, fixtures, and equipment; and certain office buildings and branch offices. The yield subsidy will be paid quarterly at a rate that equals the Texas cost of funds plus a spread as described below:

Year 1	220 basis points	Year 6	175 basis points
Year 2	215 basis points	Year 7	165 basis points
Year 3	205 basis points	Year 8	155 basis points
Year 4	195 basis points	Year 9	145 basis points
Year 5	185 basis points	Year 10	135 basis points

3. Interest bearing non-covered assets (see item 2 above) will be marked-to-market; and the FSLIC will pay for the amortization of any goodwill created as a result.

4. The FSLIC will provide coverage for all capital losses incurred upon the disposition of covered assets. Covered assets will include all problem assets as described in item 2 above. As the losses are incurred, the FSLIC will issue notes in an amount equal to the losses. The FSLIC will pay interest on the notes, on a quarterly basis, at a rate equal to the yield subsidy rate described in item 2 above. The notes will be paid off in balloon payments at the end of the ten year agreement.

   At the term of the agreement, the acquirer has the right to mark-to-market those assets that have not been liquidated after reasonable efforts.

   The FSLIC may call any covered asset for a price equal to book value, at any time.

5. The FSLIC will receive 100% of the NOL's from the acquired institutions.

Costing Assumptions

1. June 1988 financial data and the June 1988 FSLIC interest rate scenarios are used. Asset quality assumptions are the same as in the liquidation analyses.

2. Covered assets are sold as follows; 0% in the first year, 10% during years 2 and 3, and evenly over the next 4.5 years. All covered assets are sold off at the end of 7.5 years. We assume there are not any gains realized from the disposition of covered assets.

3. Two scenarios are provided: rising interest rates and flat interest rates. Cash flows are discounted at the FICO bond rate of 10.35 percent, which approximates the FSLIC's marginal cost of funds.

4. We assume the Texas cost of funds remains 53 basis points above the projected industry cost of funds.

5. The mark-to-market loss on uncovered assets is amortized over a weighted average period of 9 years, based on the terms to maturity as found in Section H of the June Quarterly Reports.

PINE GROUP

RISING INTEREST RATES

	CASH	PRESENT VALUE
NOTE		
Principal	$ 2,459,761,000	$ 918,691,170
Interest	$ 2,260,846,280	$1,415,193,740
Total	$ 4,720,607,280	$2,333,884,910
CAPITAL LOSS COVERAGE		
Principal	$ 2,558,860,000	$ 955,703,450
Interest	$ 1,508,478,220	$ 768,141,820
Total	$ 4,067,338,220	$1,723,845,270
YIELD SUBSIDY	$ 2,423,904,000	$1,892,914,000
LEGAL EXPENSES	$ 190,723,000	$ 148,892,000
MARK-TO-MARKET	$ 18,400,000	$ 11,704,000
TOTAL COST	$11,420,972,500	$5,962,348,180

FLAT INTEREST RATE

	CASH	PRESENT VALUE
NOTE		
Principal	$ 2,459,761,000	$ 918,691,170
Interest	$ 2,153,975,810	$1,352,155,400
TOTAL	$ 4,613,736,810	$2,271,846,570
CAPITAL LOSS COVERAGE		
Principal	$ 2,558,860,000	$ 955,703,450
Interest	$ 1,353,155,400	$ 732,898,970
Total	$ 3,997,558,300	$1,688,602,410
YIELD SUBSIDY	$ 2,347,826,000	$1,837,899,000
LEGAL EXPENSES	$ 190,723,000	$ 148,892,000
MARK-TO-MARKET	$ 18,400,000	$ 11,704,000
TOTAL COST	$11,168,244,110	$5,958,943,980

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

To: Tom Lykos
Director, Southwest Plan

Date: August 18, 1988

From: Margaret Hawley
Lynne Slonaker
Sandra Duvall
Financial Analysts, AED

Subject: Liquidation Analysis of Eight Associations to be acquired in the Pine Package.

As requested, we have performed liquidation analyses on the following eight institutions:

Federated S&L	FHLBB #1539
First City SA	FHLBB #7575
Independent American S&LA	FHLBB #8413
Multibanc SA	FHLBB #5075
Summit SA	FHLBB #7292
Sunbelt SA	FHLBB #5898
Texana S&LA	FHLBB #7340
Western Federal S&L	FHLBB #8335

Two scenarios are presented; rising interest rate projections and flat interest rate projections.

SUMMARY OF LIQUIDATION RESULTS

Rising Interest Rates

(000s)

Association	$ Cash	$ Present Value
Federated S&LA	43,501	73,202
First City SA	112,975	149,677
Independent American S&LA	1,038,523	1,183,766
Multibanc SA	98,339	122,174
Summit SA	221,390	243,408
Sunbelt SA	2,532,652	2,834,845
Texana S&LA	22,042	36,008
Western Federal S&LA	1,742,432	1,748,832
Total Cost	5,811,854	6,391,912

Flat Interest Rates
(000s)

Association	$ Cash	$ Present Value
Federated S&LA	43,412	73,022
First City SA	110,328	147,132
Independent American S&LA	1,036,584	1,181,553
Multibanc SA	97,458	121,252
Summit SA	221,312	243,243
Sunbelt SA	2,536,726	2,837,132
Texana S&LA	21,544	35,586
Western Federal S&LA	1,742,483	1,748,859
	---------	---------
Total Cost	5,809,847	6,387,779

GENERAL ASSUMPTIONS USED IN ALL ANALYSES

- The June 1988 Quarterly Report and the June 1988 interest rate projections were used in the analyses. Cash flows are discounted at the current FICO bond rate of 10.35%.

- Seven and a half year liquidations were performed. All assets were sold as follows: 0% in the first year, 10% in years 2 and 3, and then evenly over the next 4.5 years.

- Losses on fixed assets were based on standard assumptions as follows:

Type of Assets	% Loss
Office Buildings	25
Equipment	75
Leasehold Improvements	100
Appraisal Increment	50

- Depositor preference rules are in effect in Texas and were incorporated into the analyses. Therefore, it is assumed that all unsecured creditors are paid only after the FSLIC is paid.

Additional assumptions and figures are attached.

NON-PERFORMING ASSETS AND LOSSES FOR PINE

NON-PERFORMING ASSETS

	MORTGAGES	NON-MORTGAGES	REO	REH	SERVICE CORP.	FIXED ASSETS	OTHER ASSETS	TOTAL
Federated S&LA	45,052	1,861	23,753	2,079	1,060	701	3,899	73,785
First City SA	50,306	5,028	54,318	0	1,806	388	1,582	111,458
Independent American	342,750	16,036	112,755	97,511	1,335	4,789	12,181	570,387
Multibanc SA	35,775	2,840	31,112	8,825	1,735	2,419	7,861	80,287
Summit SA	34,636	7,352	47,193	41,248	0	1,809	15,492	138,429
Sunbelt SA	820,861	191,276	1,046,667	330,056	11,090	13,151	267,642	2,399,950
Texana S&LA	10,440	2,672	25,566	3,402	141	415	400	42,221
Western Federal S&LA	551,111	141,267	283,858	37,734	0	3,830	14,839	1,013,944
	1,890,931	368,292	1,625,216	520,855	17,167	27,502	323,896	4,422,461

LOSSES ON NON-PERFORMING ASSETS

	MORTGAGES	NON-MORTGAGES	REO	REH	SERVICE CORP.	FIXED ASSETS	OTHER ASSETS	TOTAL
Federated S&LA	11,263 *	460 *	5,938 *	520 *	1,060 *	701	3,899 *	19,841
First City SA	12,686	4,655	13,580 *	0	1,806 *	388	1,582 *	32,727
Independent American	144,957	8,434	28,189 *	24,378 *	1,335 *	4,789	12,181 *	207,293
Multibanc SA	28,944	2,762	13,176	7,800	1,735 *	2,419	7,861 *	54,417
Summit SA	20,978	5,154	43,000	30,000	0	1,809	15,492 *	99,132
Sunbelt SA	767,081	143,624	365,665	82,514 *	11,090 *	13,151	267,642 *	1,349,974
Texana S&LA	3,226	1,113	6,392 *	851 *	141 *	415	400 *	11,723
Western Federal S&LA	224,296	129,471	70,963 *	10,490	0	3,830	14,839 *	435,220
	1,213,431	295,673	546,903	156,553	17,167	27,502	323,896	2,229,727

*Indicates that the loss assumptions were increased to 25% to comply with the standard FSLIC assumptions.

STATE FEDERAL OF LUBBOCK

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

To: Edward Hjerpe
Chief Negotiator, Southwest Plan

Date: June 10, 1988

From: Steven Davidson
Regional Director, AED

Lynne Slonaker LMS
Margaret Hawley
Financial Analysts, AED

Subject: First Financial SA,
Brownfield FS&LA and
State FS&LA
FHLBB No.'s 6208,
8273, 8274

We have completed financial analysis on the proposal from Merabank, a FSB in Phoenix, Arizona, to acquire First Financial SA (FHLBB No. 6208), Brownfield FS&LA (FHLBB No. 8273) and State FS&LA (FHLBB No. 8274) in Texas. We have also estimated the liquidation costs for First Financial, Brownfield and State.

Our analyses were performed under two interest rate scenarios: rising interest rates and flat interest rates. In the liquidation analyses and the analysis of Merabank's proposal, we assume assets are sold over a 5 year period.

Merabank's proposal appears to be the least costly solution to the FSLIC under both interest rate scenarios. Merabank's proposal is cost effective to the FSLIC because the FSLIC will not incur the management expenses that would be assumed in operating the receivership. Additionally, the FSLIC will not incur any losses associated with fixed assets that would be experienced if the FSLIC were to liquidate the institutions. Furthermore, the FSLIC will share a portion of the future profits of the acquired institutions.

A summary of the results of our analyses follows. All details of our analyses are attached. If you have any questions, please don't hesitate to contact us.

Brownfield FS&LA
First Financial SA
State FS&LA

Summary of Analyses

$000s

Scenario I — Rising interest rates

	$ Present Value
Liquidation of the three associations	725,819
Merabank proposal (w/out profit sharing)	677,227
Merabank proposal (w/ profit sharing)	669,311

Scenario II — Flat interest rates

	$ Present Value
Liquidation of the three associations	721,616
Merabank proposal (w/out profit sharing)	649,919
Merabank proposal (w/ profit sharing)	642,003

Merabank Costing Summary

$000s

		$ Cash Basis	$ Present Value
I.	Rising rate scenario (w/out profit sharing)	1,268,079	677,227
II.	Rising rate scenario (w/ profit sharing)	1,247,157	669,311
III.	Flat rate scenario (w/out profit sharing)	1,224,204	649,919
IV.	Flat rate scenario (w/ profit sharing)	1,203,282	642,003

Liquidation Summary

$000s

		$ Cash Basis	$ Present Value
I.	Rising rate scenario		
	State	614,747	618,559
	First Financial	52,493	85,483
	Brownfield	16,840	21,777
	Total	684,080	725,819
II.	Flat rate scenario		
	State	614,703	618,531
	First Financial	48,271	81,642
	Brownfield	16,495	21,443
	Total	679,469	721,616

Merabank Proposal Costing

Acquiror: Merabank, a Federal Savings Bank
Phoenix, Arizona

Institutions to be Acquired:

Brownfield FS&LA, Brownfield, TX, FHLBB No. 8273
First Financial SA, El Paso, TX, FHLBB No. 6208
State FS&LA, Lubbock, TX, FHLBB No. 8274

AED Regional Director: Steven Davidson

AED Analysts: Lynne Slonaker/Margaret Hawley

Date of Costing: June 9, 1988

Structural Assumptions:

1. The form of the acquisition will be a tax-free "G" reorganization resulting in a new separate subsidiary (Newsub) held by Merabank. The FSLIC will hold warrants for 20 percent ownership of Newsub.

2. RAP net worth will be created in an amount to bring the initial capital position to 5 percent of total liabilities, inclusive of the acquiror's initial contribution of 3 percent of deposits.

FSLIC Assistance:

1. The FSLIC will issue a note to Newsub in an amount equal to the difference between liabilities assumed and tangible assets acquired, after reversing all general and specific loss reserves. The term of the note will be 10 years with a balloon payment at the end of the tenth year. Interest will be paid quarterly at a rate equal to the Texas cost of funds, adjusted quarterly.

2. The FSLIC will provide a yield subsidy on the gross book value of covered assets. Covered assets will include all problem assets (delinquent loans, loans to facilitate, REO, REI, investments in subsidiaries, repossessed personal property and ADC loans). The yield subsidy will be paid on a quarterly basis at the following rate: TX COF+250 bp in year 1, +200 bp in year 2, +195 bp in year 3, reducing 5 bp per year in years 4 through 10 down to 160 bp above the Texas cost of funds. The rate will adjust quarterly.

3. Interest bearing non-covered assets (performing mortgages and loans and investment securities) will be marked-to-market. The FSLIC will pay for the amortization of any goodwill created as a result.

4. The FSLIC will provide coverage for all capital losses incurred upon the disposition of covered assets. Covered assets will include all problem assets as described in (2) above. As the losses are incurred, the FSLIC will issue notes in an amount equal to the losses. The FSLIC will pay interest on the notes, on a quarterly basis, at a rate equal to the yield subsidy rate described in (2) above. The notes will be paid off in balloon payments at the end of the ten year agreement.

   The acquiror will receive 10 percent of any gains realized on the disposition of covered assets for the first $25 million of gains. The acquiror's portion of the gains will increase by 2 percent increments for each $25 million of gains thereafter, up to 20 percent maximum.

   At the end of the term of the agreement, the acquiror has the right to mark-to-market those assets that have not been liquidated after reasonable efforts. The mark applies to both gains and losses.

   The FSLIC may call any covered assets for a price equal to book value, at any time.

5. The FSLIC will receive warrants for 20 percent of the common stock of Newsub, exercisable at a price of 0 in years 11-15, or if Newsub is merged into Merabank, or if Newsub goes public. The FSLIC must liquidate its warrants by the end of year 15. The acquiror retains the right of first refusal when FSLIC wishes to liquidate.

6. The FSLIC will ensure that the acquiror is able to borrow at the FHLB of Dallas against 90 percent of its FSLIC promissory note and against its FSLIC-covered assets (at Bank appraised amounts).

7. All payments to and from Newsub, with the exception of yield payments which will be paid in cash, will be added or subtracted from a special reserve account balance that is to be treated as a covered asset, receiving yield maintenance.

8. The FSLIC will permit the acquiror to dividend 75 percent of net operating income from Newsub per annum. The FSLIC will receive annual dividends equal to 20 percent of the distributed income of Newsub.

9. The FSLIC will ensure that the acquiror is made economically indifferent to prepayment penalties on FHLB advances that may be incurred in restructuring the liabilities of the acquired institutions.

10. The FSLIC will compensate the acquiror for 135 percent of salaries allocated to the disposition of real estate in the acquired associations, up to a maximum of 40 basis points on covered assets.

11. Any branch buildings will be treated as covered assets if 40 percent or more of the square footage of the building is not being used for S&L activity at the end of the first year after acquisition.

12. The acquiror will pay a premium to the FSLIC in an amount of 3 percent of any deposits transferred from Newsub to the Merabank branch in El Paso for the first 15 months after the transaction.

Bidder Contribution:

1. The acquiror will contribute cash in an amount equal to 3 percent of deposits. It will maintain net worth at a level at least 3 percent of liabilities less advances secured by the FSLIC note and covered assets.

Costing Assumptions

1. March 1988 financial data and the March 1988 FSLIC interest rate scenarios are used. Asset quality assumptions are the same as in the liquidation analyses.

2. Covered assets are sold evenly over the second through fifth years after acquisition, consistent with the assumption in the two previous Southwest Plan transactions. We assume there are not any gains realized from the disposition of covered assets.

3. Branch buildings are assumed to be occupied with S&L activity and are not included in covered assets.

4. Two scenarios are provided: rising interest rates and flat interest rates. Cash flows are discounted at the FICO bond rate of 10.5 percent, which approximates FSLIC's marginal cost of funds. For calculation of profit sharing, we discounted cash flows at a risk-adjusted rate of 15 percent.

5. We assume the Texas cost of funds remains 54 basis points above the projected industry cost of funds.

6. Receipts to FSLIC from the warrants and dividends are approximated utilizing Merabank's financial projections, which appear to be reasonable. We are presently performing a viability analysis. If our viability results differ substantially from Merabank projections, an adjustment will be made to the estimate.

7. The mark-to-market loss on uncovered assets is negligible and is not included in the costing.

8. Receipts to FSLIC from the 3 percent premium paid on transferred deposits are assumed to be negligible. We assume the premium received and the profit sharing from use of deposits offset each other and the net effect is not material.

9. Salaries allocated to the disposition of real estate in the acquired associations are included in the appraisal value of the real estate and thus in our assumed capital losses. The maximum compensation for salaries is $7.9 million, assuming 40 basis points on the average covered assets.

$000s

Scenario I — Rising interest rates

	$ Cash Basis		$ Present Value	
FSLIC Note				
Principal	187,602		69,122	
Interest	156,190		97,677	
Total Note		343,792		166,799
Yield Subsidy[1]		258,293		216,351
Capital Loss Coverage				
Losses (notes)	383,819		141,418	
Interest on notes	280,506		150,990	
Total Cap.Loss		664,325		292,408
Prepayment Penalties on FHLB Advances		1,669		1,669
Mark-to-market of Earning Assets		—		—
SUBTOTAL		1,268,079		677,227
Less: Profit Sharing				
Warrants[2]		9,168		2,266
Dividends		11,754		5,650
TOTAL COST TO FSLIC		1,247,157		669,311

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[1] Includes legal expenses attributed to covered assets.

[2] Assumes warrants are sold at the end of the tenth year after acquisition at approximately 90 percent of their book value.

$000s

Scenario II — Flat interest rates

	$ Cash Basis		$ Present Value	
FSLIC Note				
Principal	187,602		69,122	
Interest	143,945		90,384	
Total Note		331,547		159,506
Yield Subsidy[3]		246,597		206,976
Capital Loss Coverage				
Losses (notes)	383,819		141,418	
Interest on notes	260,572		140,350	
Total Cap.Loss		644,391		281,768
Prepayment Penalties on FHLB Advances		1,669		1,669
Mark-to-market of Earning Assets		—		—
SUBTOTAL		1,224,204		649,919
Less: Profit Sharing				
Warrants[4]		9,168		2,266
Dividends		11,754		5,650
TOTAL COST TO FSLIC		1,203,282		642,003

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[3] Includes legal expenses attributed to covered assets.

[4] Assumes warrants are sold at the end of the tenth year after acquisition at approximately 90 percent of their book value.

QUESTION 6. MAGNITUDE OF THE THRIFT PROBLEM

QUESTION 6: MAGNITUDE OF THE THRIFT PROBLEM

To compute the percentage of the insurance fund's negative net worth attributed to the most severely troubled 25 and 100 thrifts, requires the use of 12/31/87 data, as it represents FSLIC's most current audited financial data.

The fiqures below are based on total Liability for Unresolved Cases as shown on the 12/31/87 Statement of Condition, and the thrifts associated with that estimate. The estimated liability is a more appropriate measure of the thrifts' ultimate impact to the Corporation than insurance fund's negative net worth.

	Estimated liability at 12/31/87	Percent total liability	Number resolved in CY88	Estimated liability of resolved
Top 25 thrifts	$9.9 billion	56.9%	12	$5.6 billion
Top 100 thrifts	$14.9 billion	85.7%	56	$8.5 billion
Total	$17.4 billion (205 thrifts)			

The Corporation is presently completing the preparation of the December 31, 1988 financial statements, and once audited by the Government Accounting Office, will be available for review.

WRITTEN QUESTIONS FROM SENATOR CHILES TO MR. SANDLER AND THE RESPONSES

November 8, 1988

The Honorable Lawton Chiles
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510-6100

Dear Senator Chiles:

RE: FSLIC CRISIS

Preliminarily, I should like to thank you for the opportunity to testify before your Committee on October 5. It is essential that the incoming Administration and Congress focus on the FSLIC crisis as early as possible in order to stop the compounding losses and the associated problems.

Before responding to the specific questions you have put to me, I should like to reiterate a few points from my testimony. I testified that my estimates of the losses were in the range of $60 to $100 billion and that it could be more. I also stated that the ultimate exact cost would depend upon the mix of mergers and liquidations combined with what happens to real estate values, especially in the southwest.

Let me turn now to your questions.

What were your assumptions about future interest rates and what impact did the assumptions have on your estimate of the size of the problem?

For the purposes of the estimate I made in my testimony, I assumed that interest rates would stay at approximately the same level as they are now. If interest rates were to spike, the losses could significantly exceed the range that I suggested.

Thus, your question brings up an extremely important additional issue. I have been greatly concerned that many institutions in our business have made inadequate progress in insulating themselves against significant increases in interest rates. If rates were to rise significantly, I would anticipate a blood bath in these institutions and, to the extent that the same problem inheres in portions of the banking industry, in those institutions as well.

1901 Harrison Street
Oakland, California 94612
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Member of Golden West Financial Corporation

At the end of 1987, and I believe the numbers haven't changed much since then, 1,044 solvent institutions (39.5% of all solvent institutions) with $308 billion in assets (28% of the total) had a one-year asset/liability maturity gap of worse than -40%. This is a technical concept but basically means that if interest rates rise, interest-costing liabilities equal to more than 40% of these institutions' assets will reprice without a concomitant repricing of a like amount of assets. In practical terms, if interest rates were to rise, the cost of these liabilities would rise and not be offset by an increase in the yield in assets.

In dollar terms, we are talking here of about $120 billion of unmatched liabilities repricing. If interest rates were to go up by 400 basis points, say, this would mean that these institutions would lose $5 billion in the first full year after the increase in the rate paid on these liabilities. Moreover, on a market value basis, most of these institutions would probably be insolvent.

I do not think there is a sufficient appreciation of this danger among the regulators. A clear indication of this is provided by the case of Financial Corporation of America. FCA was grossly mismatched from an asset/liability standpoint. There were times where interest rates were favorable to an unwinding of its mismatched position but, although the institution was under the close supervision of the Bank Board, this was never done (although, in 1988, finally there was some unwinding of a portion of the mismatched position of FCA).

I think it is important that Congress use its authority, moral or otherwise, to insure that the Bank Board addresses this interest rate risk situation. Although there are indications that the Bank Board has more recently become concerned about this problem, since Congress is likely to pay the bill, it has a stake in either energizing the Bank Board, or if the Bank Board is addressing this issue, then Congress should support the Bank Board in those efforts.

If interest rates were to decline, this could temporarily assist the industry and somewhat reduce the losses, unless the decline in interest rates was due to a stagnant economy or a recession.

What did you assume about the recovery of asset values in the southwest and what impact did the assumptions have on your estimate of the size of the problem?

Recovery in asset values will probably help some individual institutions in the southwest that were reasonably well managed but are teetering on the brink of insolvency, due principally to the real estate depression in the southwest. However, on a macro level, I do not believe such a recovery will markedly affect the size of the problem facing the FSLIC. (Note, that if the recovery of asset values in the southwest is due to a significant increase in the price of oil, it is likely that there would be a concomitant significant increase in inflation and in interest rates and that, in turn, would offset any benefits flowing from the increase in asset values.)

To appreciate that, you need to realize the real cause of the problems facing the FSLIC and the amazing extent to which those problems are concentrated among a few institutions.

If one looks at the deeply insolvent institutions a picture emerges of renegade institutions which abandoned the business' traditional role and engaged instead in a pattern of reckless activity.

Table 1 shows the balance sheet composition over time of institutions that have either been placed in the Management Consignment Program or have GAAP net worth that is lower than -10% of total liabilities -- admittedly an arbitrary standard but one that most would admit is evidence of deep insolvency. In other words, the 216 institutions pictured in Table 1 represent the worst cases with which FSLIC has to deal.

Back in 1982, these 216 institutions still could be regarded as institutions fulfilling the role of providers of home finance. They had 68.3% of assets invested in assets specifically related to home mortgages.

Over the subsequent years, however, these institutions abandoned that role. By mid-1988, they had only 40.1% in mortgage related assets. On the other hand, investment in nontraditional activities had increased from 15.7% in 1982 to 49.5% by mid-1988.

The rest of the business had 63.8% of its assets in mortgage-related assets not a radical departure from the 73.2% level of 1982. Nontraditional investments had risen from 8.8% in 1982 to 15.5% in June 1988, again not an indication of a headlong dash into new forms of business.

In fact, when one looks at the progression of these numbers over the intervening years, the picture emerges of moderate diversification in the 1983-1985 period and relative stabilization thereafter. Thus, it seems from the data that there was a one-time moderate adjustment following the grant of broader powers by the Garn-St. Germain act and similar, or in some cases, much broader legislation by the states. Since then a new equilibrium seems to have been established but one where home finance has remained by far the dominant activity.

What all of these numbers incontrovertibly document is the fact that the bulk of savings institutions have remained dedicated to their traditional role of providing finance for home purchases. But there is a relatively small number of institutions that totally abandoned that role, taking advantage of the so-called "opportunities" provided by deregulation.

Again, I ask the question -- Why are those of us who have remained in residential lending and who warned of these problems and whose warnings were ignored -- why are we being asked to pay for any of the losses?

As well as abandoning their traditional role, the 216 renegade institutions were responsible for 88.9% of the total negative net worth among all the 495 GAAP-insolvent institutions. The bulk of the FSLIC's problems are the result of the uncontrolled activities of a relatively small number of interlopers into the system who were negligently allowed in by the regulators.

The 216 institutions labeled as renegade institutions are responsible for almost all of the losses being reported by the industry. These institutions lost a staggering $7.3 billion in the first six months of 1988 and $6.8 billion last year.

An even more striking illustration of the fact that the savings institution business as a whole is not in crisis and of the concentration of the losses among a mere handful of institutions comes from looking at the negative net worth of the most deeply insolvent of the renegades. Table 2 reveals the astounding fact that 25% of the negative net worth of all of the 495 GAAP-insolvent institutions in the country was concentrated in only six institutions. One third of all of the negative net worth was in only ten institutions and one half was in 24 institutions. One can well ask the following questions concerning these institutions:

Where were the regulators?
Where were the supervisors?
Where were the examiners?

Financial institutions do not get to the state of those listed in Table 2 without something more being wrong than just a depressed local economy. My reading of the situation is that fraud in at least some cases, combined with a lack of the most elementary caution and good sense that a financial services manager or banker should have, was the cause of most of the spectacular failures. You will find, for instance, that most of these institutions exhibited explosive growth over the last several years and the numbers in Table 1 show that they abandoned the traditional role of the industry. And the losses that resulted could have taken place only through a total breakdown in the post deregulation regulatory/supervisory process.

Since local economic depressions were not the main cause of most of these insolvencies, economic recovery will probably not markedly reduce the imbedded losses. Many of the investments these institutions made were ill-advised from the beginning and economic recovery will not turn that reality around.

What did you project as the asset base of FSLIC problem cases to be resolved over the next 10 years? Please provide a breakout between mergers and liquidations and give your specific assumptions about the resolution cost for each type of case. Also give the expected cost to FSLIC to resolve each category of cases over the next 10 year period on both a cash and present value basis. Be as specific as possible.

As of June 1988, there were 495 GAAP-insolvent institutions with total liabilities of $210 billion (560 tangible GAAP-insolvent institutions with total liabilities of $360 billion). For the purpose of the amount of losses which I estimated, I did not project any more insolvencies although one has to be realistic in today's deregulated and volatile world and there are certain to be future insolvencies. I certainly hope that we have learned enough and that our supervisory and examination system has been beefed up enough so that we will not have failures in the future in the number and of the severity that we have seen in the recent past. As I testified, these extraordinary losses in the post deregulatory period (1981 to the present) were due primarily to a unique confluence of a bungled deregulatory process and a total breakdown of the regulatory/supervisory process. Note that the total FSLIC losses in the 47 years between 1934 and 1981 were only $630 million.

However, I think it imperative that we do something to make those institutions I mentioned earlier take steps to reduce their interest rate risk. Those institutions represent a major threat. In addition to the potential losses due to interest rate risk mismatching, I am concerned about potential losses from new and untried nontraditional operations dealing in such areas as so-called "risk controlled arbitrage" and investments in junk bonds.

One of the most urgent measures to try to curb future problems is to resolve today's problem cases immediately. Dealing with these problems is all-consuming for the Bank Board today and is distracting its attention from its regulatory duty to ensure that new problems do not arise. Also it is very difficult to enforce regulations, such as the minimum capital standards, on all, when so many institutions are not meeting them. Finally, it is endlessly frustrating when we see insolvent institutions growing rapidly and otherwise continuing to operate as if nothing had happened.

On top of this, one of the most serious sources of potential future problems may be many of the current so-called "solutions" which have not resolved anything. Little new capital is being brought to the table. In testimony in September before the Senate Banking Committee, the GAO estimated that deals under the Southwest Plan consummated between May 13 and September 9 would cost the FSLIC $21.8 billion but only $121 million in outside capital was being raised in these transactions. There is also a fear that the acquirers will be allowed to embark on courses of rapid growth and other high risk business strategies.

Although I can speculate concerning the breakout between mergers and liquidations, etc., I believe there are more reliable sources of information since some of the data that is needed is confidential. If you are interested in sources other than the FHLBB, I suggest that you utilize the resources of GAO and the FDIC.

What do you project as the available resources to FSLIC over the next 10 year period? To arrive at these numbers, what assumptions did you use about deposit growth and the special assessment?

Based on a deposit growth rate of 4% per year -- the business qua business cannot grow much faster than this and still meet tighter capital requirements -- between 1989 and 1998, I estimate that the FSLIC will collect $10.1 billion in regular deposit premiums. The onerous special premium, if it is not phased down, or preferably eliminated, would generate an additional $15.1 billion. FSLIC, therefore, has the potential to collect $25.2 billion in premium income. Note, however, if this inequitable premium continues, it is likely to cause losses equal to or larger than the premiums that will be collected and accordingly such special premium would be counterproductive.

But this is only gross income. Consider that if the FICO issues the entire $10.8 billion in bonds that it is authorized to do so by the beginning of 1991 and the interest rate on these bonds is, say, 10%, the interest expense over the 10-year period will be $9.8 billion.

The FSLIC has also issued a generous amount of notes to prop up failed institutions. Assuming that the FSLIC issues no more than the $17 billion of notes already outstanding, the 10-year interest cost on these obligations will be $13.6 billion. This assumes an interest rate of 8% on the notes, the same as used by the GAO.

Finally, the FSLIC has provided yield maintenance and other guarantees to failed institutions. Based upon GAO's estimate of the annual cost of these guarantees, the 10-year interest cost on said guarantees would be estimated at $21.6 billion. Since I do not have the precise data used by GAO in its estimate, this number may be quite soft, although even if the total expense of this item is less than indicated herein, the burden of my analysis does not change.

In total, the FSLIC will need to cover total interest expenses of $45 billion over the next 10 years. But they will have premium income totaling only $25.2 billion at maximum. This means that the FSLIC is facing a $19.8 billion shortfall over the next decade just from the interest obligations that it has incurred to date.

The FSLIC will also have operating costs to cover. I have not taken these into consideration which means that the deficit will be even larger.

The FSLIC may receive some income from investments and from the sale of assets held in receivership. I have ignored these components for two reasons. First, there is no way to estimate what the income will be from these sources.

Second, and more importantly, the FSLIC will need every dime it can get from these sources to pay off the $17 billion notes it has issued. Remember, the principal of the FICO bonds is covered by a capital contribution from the Federal Home Loan Banks. The FSLIC notes are collateralized only by the ability of the FSLIC to honor them.

The final uncertainty in making these projections is highlighted by the recent announcement by Great Western Bank that it is seeking to exit the FSLIC and is seeking insurance coverage from the FDIC. The Great Western announcement is a clear indication of the weight of the burden the FSLIC is placing on our institutions. Unless there is a quick and evident end in sight to the inequitable and competitively unbearable burden, Great Western will have many followers and that will only compound FSLIC's problems immeasurably.

The bottom line, Mr. Chairman, is that, even under the most optimistic circumstances, the FSLIC will have a large deficit over the next 10 years just from the actions it has already taken. Stated as clearly as I can say it, the current situation and current policies are absolutely untenable.

Very truly yours,

Herbert M. Sandler
Chairman of the Board
and Chief Executive Officer

HMS:jy

TABLE 1: BALANCE SHEET COMPOSITION OF TRADITIONAL VS. RENEGADE SAVINGS INSTITUTIONS

	Traditional Savings Institutions		Renegade Savings Institutions	
Year-End	Residential Mortgage-Related Loans*	Nontraditional Investments**	Residential Mortgage-Related Loans*	Nontraditional Investments**
1982	73.2%	8.8%	68.3%	15.7%
1983	71.1	10.0	60.8	29.1
1984	67.2	12.9	51.0	37.7
1985	64.5	15.0	43.0	46.1
1986	63.4	15.3	38.7	48.0
1987	64.2	15.2	37.8	49.3
June 1988	63.8	15.5	40.1	49.5
Number	2,501		216	
Liabilities	$1,163.8 B.		$77.3 B.	
GAAP Equity	$49.0 B.		($23.3 B.)	
Equity/Liabilities	4.43%		-30.14%	
Negative Equity of Renegade Institutions as a Percent of Total Negative Equity in the business			88.9%	

Note: Renegade institutions include the MCPs and institutions with a GAAP equity-to-liability ratio of worse than -10% as of 6/30/88. Only those institutions operating since year-end 1982 are included. Traditional institutions consist of all other institutions that have been in existence since year-end 1982.

* Residential mortgage-related assets include 1-4 family, multifamily and mobile home loans and mortgage-backed securities.

** Nontraditional assets include commercial real estate and land and development loans, nonmortgage commercial loans, real estate investments, investment in service corporations and real estate owned (on the assumption that most real estate owned is comprised of property foreclosed upon as a result of delinquencies in nontraditional loans).

TABLE 2: THE FSLIC'S PROBLEMS ARE HIGHLY CONCENTRATED

THE PERCENTAGE OF THE TOTAL NEGATIVE GAAP CAPITAL NATIONWIDE THAT IS ACCOUNTED FOR BY THE 24 LISTED INSTITUTIONS

Institution Name	City	State	Liabilities	GAAP Capital	Cumulative Percent Of Negative GAAP Capital
1 Sunbelt SA of Texas	Dallas	TX	$4,109.1	$(1,895.0)	7.25%
2 Western FS & LA	Dallas	TX	2,432.9	(1,400.8)	12.60%
3 Beverly Hills Svgs.	Beverly Hills	CA	1,965.9	(973.5)	16.32%
4 Independent American	Irving	TX	1,667.1	(873.3)	19.66%
5 Guaranty FS & LA	Dallas	TX	2,782.7	(822.7)	22.81%
6 Commodore Savings	Dallas	TX	1,180.8	(655.5)	25.32%
7 State FS & LA	Lubbock	TX	934.2	(589.2)	27.57%
8 Bell S & LA	San Mateo	CA	1,407.2	(565.2)	29.73%
9 First Texas SA	Dallas	TX	3,640.4	(551.9)	31.84%
10 Gill SA	Hondo	TX	1,851.2	(506.7)	33.78%
11 Sandia FS & LA	Albuquerque	NM	1,297.3	(425.3)	35.40%
12 American S & LA	Stockton	CA	30,470.6	(373.4)	36.83%
13 Meridian Savings	Arlington	TX	448.4	(370.9)	38.25%
14 Champion Savings	Houston	TX	1,014.5	(357.7)	39.62%
15 Security S & LA	Scottsdale -	AZ	1,044.4	(331.5)	40.89%
16 Franklin SA	Austin	TX	736.9	(326.0)	42.13%
17 Bright Banc SA	Dallas	TX	4,884.0	(312.9)	43.33%
18 Butterfield S & LA	Santa Ana	CA	694.5	(292.3)	44.45%
19 Security Savings	Texarkana	TX	541.6	(273.5)	45.49%
20 Continental Savings	Bellaire	TX	628.8	(265.1)	46.51%
21 Commonwealth Savings	Houston	TX	2,043.8	(263.6)	47.51%
22 Savers FS & LA	Little Rock	AR	1,202.3	(261.8)	48.52%
23 Mercury SA of Texas	Wichita Falls	TX	587.8	(254.9)	49.49%
24 Heights Savings	Houston	TX	468.7	(222.3)	50.34%
Worst 24 GAAP-insolvent institutions			$68,035.0	$(13,165.0)	
ALL GAAP - insolvent institutions			$209,577.8	$(26,151.7)	

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